

**UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF MASSACHUSETTS  
(Boston Division)**

**UNITED STATES SECURITIES AND  
EXCHANGE COMMISSION,**

**Plaintiff,**

**V.**

**STEVEN E. NOTHERN,**

**Defendant.**

**Civil Action No. 05-CV-10983 (NMG)**

**DECLARATION OF JOHN J. ROSSETTI JR. FILED IN SUPPORT OF  
U.S. SECURITIES AND EXCHANGE COMMISSION'S OPPOSITION TO  
DEFENDANT'S MOTION FOR SUPPLEMENTAL DEPOSITIONS**

John J. Rossetti Jr., pursuant to 28 U.S.C. § 1746, declares under the penalty of perjury as follows:

1. I am a senior counsel for the Securities and Exchange Commission in the above-captioned matter. I am a member of good standing of the New York, Maryland, and District of Columbia bars. Except where otherwise indicated, I make this declaration based upon the documents thus far produced during discovery.
2. A true and correct excerpt from the February 8, 2008 deposition of Jill Cetina is attached as Exhibit A.
3. A true and correct copy of the October 31, 2001, Lehman Brothers Fixed Income Research, "Interest Rate Strategies, Treasuries, Agencies, Swaps, Futures &Options" is attached as Exhibit B.

4. A true and correct excerpt from the June 23, 2006 deposition of Paul Malvey is attached as Exhibit C.

5. A true and correct copy of is a Memorandum of Activity concerning the Treasury Office of Inspector General's November 21, 2001 interview of Jeff Huther is attached as Exhibit D.

6. A true and correct copy of search results from the Financial Industry Regulatory Authority's WEB CRD database is attached as Exhibit E.

7. A true and correct excerpt from the January 30-31, 2007 deposition of Steven Nothern is attached as Exhibit F.

8. A true and correct excerpt from the April 19, 2006 deposition of Peter Davis is attached as Exhibit G.

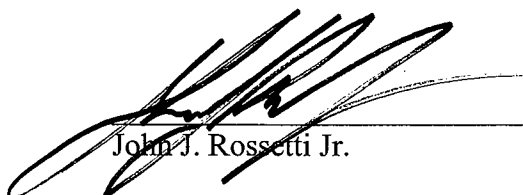
9. A true and correct excerpt of Exhibit 3 from the August 8, 2006 deposition of Peter Fisher is attached as Exhibit H.

10. A true and correct excerpt from the June 27, 2006 deposition of Brian Roseboro is attached as Exhibit I.

11. A true and correct excerpt from the September 27, 2006 deposition of Galen Criqui is attached as Exhibit J.

12. A true and correct excerpt from the November 29, 2006 deposition of John Cadogen is attached as Exhibit K.

I declare under the penalty of perjury that the foregoing is true and correct. Executed on April 3, 2008.

  
\_\_\_\_\_  
John J. Rossetti Jr.

# **EXHIBIT A**

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Washington, DC

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2 FOR THE DISTRICT OF MASSACHUSETTS  
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4 UNITED STATES SECURITIES AND :  
EXCHANGE COMMISSION, :  
5 :  
Plaintiffs, :  
6 :  
v. : Civil Action No.  
7 :  
STEVEN E. NOTHERN, : 05-10983 (NMG)  
8 :  
Defendant. :  
9 - - - - - x

10  
11 Videotaped Deposition of JILL CETINA  
12 Washington, D.C.  
13 Friday, February 8, 2008  
14 9:56 a.m.

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21 Reported by: Okeemah S. Henderson, LSR

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<p>1 however, was that they had been buying the 30 year 2 that morning prior to 10 a.m. 3 BY MR. SHOPE: 4 Q. Well -- 5 A. Which with the inference being that he 6 had some concern about the source of their 7 information and why they were engaging in those 8 trades. I think he was also trying to be careful 9 in what he said to me and how he said it. 10 Q. But the implication was that the 11 reason that Goldman Sachs and Lehman were buying 12 so heavily was that they had some knowledge? 13 A. That they must have known that they 14 had preknowledge. 15 MS. WILLIAMS: Objection. 16 BY MR. SHOPE: 17 Q. That would be the reason why he would 18 be angry? 19 A. Right. 20 MR. FREEBORNE: Objection. 21 MS. WILLIAMS: Objection. 22 A. Again, as I indicated, you know, he</p>	<p>1 approximately 20 something. 2 BY MR. SHOPE: 3 Q. And did you know of a Jack Malvey at 4 Lehman Brothers? 5 A. Yes. He's one of their fixed income, 6 analyst is too low. I don't know what his title 7 is but he's one of their senior fixed income 8 strategists at Lehman. Yes. 9 Q. So he would be someone at Lehman whose 10 job would include strategizing about the 30-year 11 bond? 12 MS. WILLIAMS: Objection. 13 A. I mean, my experience from reading his 14 pieces is that he thinks about credit strategy 15 which could include the treasury market, it could 16 include other markets as well for Lehman Brothers. 17 So anything relating to fixed income, i.e. bonds 18 potentially. 19 BY MR. SHOPE: 20 Q. And were you aware that Jack Malvey at 21 Lehman Brothers was related to Paul Malvey at the 22 Treasury Department?</p>
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<p>1 could have been angry because he got caught short 2 but clearly he could have also been angry because, 3 you know, if he felt that there was inside 4 information or information being leaked. 5 BY MR. SHOPE: 6 Q. Do you know a Woody Jay? 7 A. The name is familiar. 8 Q. Are you aware that Woody Jay was a 9 vice chair of borrowing advisory committee in 10 2001? 11 A. I may have been aware of it after the 12 fact. At that time, I don't think I was. 13 Q. At the time, was Woody Jay working for 14 Lehman Brothers? 15 A. I don't know. 16 Q. Lehman Brothers was a major market 17 participant with respect to treasury securities; 18 is that fair to say? 19 MS. WILLIAMS: Objection. 20 A. Lehman Brothers was one of the New 21 York Feds primary dealers in the treasury market, 22 one of, I don't know how many at that time, but</p>	<p>1 MS. WILLIAMS: Objection. 2 A. I wondered about that at the time. I 3 learned that later. 4 BY MR. SHOPE: 5 Q. How did you learn that later? 6 A. I asked someone. Not in 2001 but 7 later. I don't know what year. It may have been 8 when I moved in domestic finance. 9 Q. So possibly like 2002? 10 A. 2002 I wasn't in domestic finance. I 11 don't think I moved until 2004. 12 Q. Now, turning back to your interview 13 notes -- 14 MR. FREEBORNE: I think that misstates 15 the record about her notes. 16 MR. SHOPE: Oh, I'm sorry. The notes 17 of your interview. I apologize. 18 BY MR. SHOPE: 19 Q. There's reference to a meeting that 20 you had with a Drew Matus? 21 A. Drew Matus. 22 Q. Or Matus. And he also was employed by</p>

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<p>1 Q. When you mean the piece supposedly get 2 distributed?</p> <p>3 A. I'm sorry.</p> <p>4 Q. When were you told that the piece 5 was --</p> <p>6 A. I was told this on the 31st but I 7 wasn't given any more information other than 8 something to the affect that Lehman Brothers had 9 put a piece out to their clients saying they felt 10 this was going to happen. I even recall asking 11 the New York Fed desk if they had seen any such 12 piece.</p> <p>13 Q. So just to clarify, would the piece 14 have gone out prior, were they saying the piece 15 went out prior to October 31st?</p> <p>16 A. They seem to be implying that the 17 piece had gone out prior to the quarterly 18 refunding.</p> <p>19 Q. But you personally never saw the 20 piece?</p> <p>21 A. I never saw the piece and the attempts 22 that I made to see if anyone had a copy of the</p>	<p>1 Q. You said you never saw it?</p> <p>2 A. Exactly. Exactly.</p> <p>3 Q. Did Mr. Haskell tell you where he was 4 getting this information about Lehman Brothers 5 putting out a piece?</p> <p>6 A. I believe he said from other people, 7 from their clients presumably people he was 8 entering into trades with, but I didn't try to ask 9 him to name parties.</p> <p>10 Q. Just to clarify, where did Mr. Haskell 11 work at that time?</p> <p>12 A. At the Credit Suisse First Boston at 13 that time.</p> <p>14 Q. Did you do anything to personally 15 verify whether Lehman Brothers had taken a 16 position in the 30-year bond on the morning of 17 October 31st?</p> <p>18 A. Personally verify. I'm not sure what 19 mechanism -- I mean, other than what reports 20 people would give to me about --</p> <p>21 Q. Yes, other than those.</p> <p>22 A. About their trading. No, there's not.</p>
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<p>1 piece never produced anything.</p> <p>2 Q. Who did you make these attempts to?</p> <p>3 A. I first asked the person who told me 4 there was such a piece. I believe I asked Pat 5 Haskell do you have a copy. So you heard there's 6 this piece, do you have a copy of it and I think I 7 may have also asked, like I said, the New York Fed 8 if they were aware of any research piece like 9 that, that's my recollection at least that I may 10 have asked them that as well.</p> <p>11 Q. Just to clarify, again, was your 12 understanding the piece went out before October 13 31st or before the announcement on October 31st?</p> <p>14 A. When I -- the sense that I had from 15 talking, I believe, to Pat was that a piece had 16 been distributed again some time prior to the 17 quarterly refunding announcement in which Lehman 18 Brothers expressed a view to their clients that 19 the 30 year would be eliminated. The details on 20 what time that was distributed --</p> <p>21 Q. Or if it was distributed?</p> <p>22 A. Right. What do you mean?</p>	<p>1 Unless treasury issues a position call report, 2 there isn't, that I'm aware of, perhaps through 3 the New York Fed, there aren't a huge number of 4 mechanisms I guess is where I'm trying to go to 5 determine someone's position in a particular 6 security.</p> <p>7 You can look if you have access to certain 8 trading platforms at particular moments in time 9 where someone might be trading, again, those are 10 all things that from the vantage point that I was 11 in, I didn't have access to.</p> <p>12 Q. So the statements that people were 13 making that Lehman Brothers were taken that 14 position, how do you know those were accurate?</p> <p>15 A. I don't. I'm not trying to say they 16 are accurate but I felt it was important to share 17 with other people what was being stated to me.</p> <p>18 Q. Let me go back to Mr. Matus for just a 19 second. Do you know why Mr. Matus was meeting 20 with Mr. Malvey and Mr. Huther?</p> <p>21 A. I presume in the run up to the next 22 weekly quarterly refunding just to talk with them.</p>

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<p>1 whether Paul may have shared -- this was later  2 when I worked for Jeff after Paul had left that I  3 may have had a concern about whether anything with  4 Drew seemed to have a view that the bond was going  5 to be eliminated and whether anything might have  6 been shared that shouldn't have been shared in  7 that meeting and Jeff indicated to me that, you  8 know, that I believe what he said was that nothing  9 like that had happened.</p> <p>10 Q. Did you have a similar concern about  11 Mr. Huther conveying information to Mr. --</p> <p>12 A. No.</p> <p>13 Q. Why not?</p> <p>14 A. I guess part of it comes to about  15 having had some experience working with Jeff  16 later. I think Jeff would not in my professional  17 experience with him not have crossed that kind of  18 a line, you know. This is again a personal view,  19 not a something that I can state with fact, but I  20 have a different perception of Mr. Malvey which is  21 perhaps unkind to say, but that's my perception of  22 him, which is colored by a few things that other</p>	<p>1 debt management but I'm not completely sure of  2 that. At some point I did ask.</p> <p>3 Q. When were you in debt management?</p> <p>4 A. That started, I believe, in 2004.</p> <p>5 Q. So you found out that Mr. Malvey had a  6 relative at Lehman Brothers you believe in 2004?</p> <p>7 A. I believe.</p> <p>8 Q. So at the time that you had this  9 concern on the 22nd when you talked to Mr.  10 Matus --</p> <p>11 A. I knew there was someone at Lehman  12 Brothers who had a similar last name, I didn't  13 have the name.</p> <p>14 Q. Do you know how often Mr. Malvey  15 communicated with that person at Lehman Brothers?</p> <p>16 A. No, I don't.</p> <p>17 Q. Do you know if they were ever in  18 communications?</p> <p>19 A. No, I don't.</p> <p>20 Q. Do you know how close a relative that  21 person was to Mr. Malvey?</p> <p>22 A. In 2001?</p>
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<p>1 people have shared with me about their experiences  2 with him working with him.</p> <p>3 Q. Is your perception based on anything  4 other than people's perceptions about Mr. Malvey  5 that they shared with you?</p> <p>6 A. I always found Paul to be very -- I'm  7 sorry. Can you restate the question?</p> <p>8 Q. Yes. Your perception of Mr. Malvey  9 you said in part it was based on perceptions of  10 him that other people had that they had shared  11 with you. I wanted to know if there was anything  12 besides that that helped form your perception?</p> <p>13 A. I had some concerns also knowing that  14 Paul had a relative at Lehman Brothers about the  15 whole Lehman Brothers, that connection.</p> <p>16 Q. When did you learn Mr. Malvey had a  17 relative at Lehman Brothers?</p> <p>18 A. I believe it was -- I had wondered  19 about it when I had seen Jack Malvey's name on  20 some Lehman Brothers publications when I was in  21 the marketing group but I had not directly ever  22 asked. I think I found it out later when I was in</p>	<p>1 Q. Yes.</p> <p>2 A. No.</p> <p>3 Q. Do you know now?</p> <p>4 A. I believe it's his cousin, but I'm not  5 100 percent sure.</p> <p>6 Q. Do you know how often he talks or  7 communicates with his cousin?</p> <p>8 A. No.</p> <p>9 Q. Do you know how often he communicated  10 with him in 2001?</p> <p>11 A. No, idea. Since we're on the issue  12 though of Paul --</p> <p>13 Q. Wait. No. Question. Unless it's in  14 response to the last question about whether or not  15 you knew he communicate with him?</p> <p>16 A. No.</p> <p>17 MR. SHOPE: Or if she needs to correct  18 or give a complete answer to the prior question.</p> <p>19 MS. WILLIAMS: Is there another answer  20 to a question that was incomplete?</p> <p>21 A. You were asking a question about my  22 perception of Paul and what colored that. One of</p>

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<p>1 the things that after 2001 colored my perception 2 of Paul was a story that was shared with me by 3 someone in debt management. 4 BY MS. WILLIAMS: 5 Q. After you spoke to Mr. Huther and he 6 told you that the 30-year bond didn't come up in 7 his conversation with Mr. Matus, how did that 8 affect your perception about whether or not 9 Mr. Malvey had discussed the 30-year bond with Mr. 10 Matus? 11 A. It affected it somewhat. But 12 candidly, I still had some concerns. Paul, after 13 leaving Treasury went to work as an advisor for a 14 primary dealer. In the role that I had, I saw 15 Paul fairly frequently at -- not -- I don't, 16 fairly frequently, I would see him from time to 17 time at conferences and -- I'm sorry. Your 18 question? I feel like I'm wandering on your 19 question, so. 20 Q. That's okay. My question had to do 21 with Mr. Huther, but I'll ask a different 22 question. Do you have any personal knowledge that</p>	<p>1 A. Sure. Well, if you're in an area that 2 is market sensitive or your GS level exceeds a 3 certain, GS level being your rank in Government 4 service, exceeds a certain level or your 5 supervisor, I'm not an ethics expert but you're 6 basically asked to fill out a form where you 7 disclose your income, assets, outside positions, 8 things like that, things that could potentially 9 represent ethical conflicts of interest. 10 So that's and that was something in the 11 market room that everyone on staff irrespective of 12 their GS level was asked to file. 13 Q. You stated the last sentence on page 1 14 of Exhibit 8, She also volunteered that the SF 15 450, parenthesis, confidential financial 16 disclosure report, closed parenthesis, did not 17 require filing (inaudible) -- 18 MR. FREEBORNE: This is not a document 19 that she originated. I just want to make that 20 clear. 21 MS. WILLIAMS: I understand. So this 22 is the last sentence of Ms. Kerner's memo. Do you</p>
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<p>1 Mr. Malvey communicated anything about the 30-year 2 bond to Mr. Matus? 3 A. No. 4 Q. Do you have any personal knowledge he 5 communicated anything about the 30-year bond prior 6 to October 31st to anyone outside of Treasury? 7 A. No. 8 Q. Do you have any personal knowledge 9 that anyone inside Treasury leaked any information 10 about the elimination of the 30-year bond to 11 anyone outside of Treasury before October 31st? 12 A. No. 13 Q. Do you have any personal knowledge 14 that Lehman Brothers traded in a 30-year bond 15 prior to the announcement on October 31st? 16 A. No. I have no way to verify what 17 people said to me. 18 Q. Let me ask you about Exhibit 8, 19 Ms. Kerner's memo. Mr. Shope touched on this a 20 little bit. I want to ask some questions about 21 the form 450s. Could you first tell us what a 22 form 450 is?</p>	<p>1 recall discussing the form 50 issue with 2 Ms. Kerner or with someone in GC? 3 MR. SHOPE: You mean the form SF 450. 4 BY MS. WILLIAMS: 5 Q. Yes. 450. 6 A. I may not have discussed it with her. 7 I know that I had at least two other conversations 8 with ethics in the time that I was at Treasury 9 about that there wasn't anything -- any reporting 10 requirements or government securities for people 11 who were in areas that might have knowledge about 12 Treasury issuance decision. 13 Q. Is the SF 450 the only thing that 14 prevents a filer from trading information that 15 they obtain in a treasury role in government 16 securities? 17 A. It doesn't prevent you but I believe 18 that the idea behind the SF 450 is that it allows 19 your supervisor to identify potential conflicts of 20 interest that you might have based on what type of 21 holdings you have or outside position or income. 22 So if you don't even know, you can't identify for</p>

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<p style="text-align: right;">Page 194</p> <p>1 MR. SHOPE: Note my objection.</p> <p>2 A. I'm sorry. Can you just restate your</p> <p>3 question because I'm not sure I'm following you.</p> <p>4 BY MS. WILLIAMS:</p> <p>5 Q. My question was about flattening</p> <p>6 trade. One side of a flattening trade, if it's a</p> <p>7 flattening trade between 5s and 30s, would one</p> <p>8 person be betting that the price of the bond would</p> <p>9 go up; meaning that they would make money if the</p> <p>10 price of a 30-year bond went up?</p> <p>11 MR. SHOPE: Note my objection that we</p> <p>12 haven't been talking about flattening trades that</p> <p>13 are 5s and 30s.</p> <p>14 MS. WILLIAMS: I have. That's been my</p> <p>15 question.</p> <p>16 BY MS. WILLIAMS:</p> <p>17 Q. My first question was are you familiar</p> <p>18 with flattening trades involving the 5 and 30-year</p> <p>19 bonds. Are you?</p> <p>20 A. Yes.</p> <p>21 Q. Do you know if that's what they were</p> <p>22 referring to here?</p>	<p style="text-align: right;">Page 196</p> <p>1 trade?</p> <p>2 A. Well, obviously, if you're buying 30</p> <p>3 years, somebody else is selling them to you,</p> <p>4 right, so.</p> <p>5 Q. So then the person selling, what</p> <p>6 would, if the person buying thought it would go up</p> <p>7 to the person selling --</p> <p>8 A. Well, if you're a market maker, that's</p> <p>9 just your job to, you know, somebody comes in,</p> <p>10 you're a dealer, you're a primary dealer. And</p> <p>11 it's not that you're necessarily taking a</p> <p>12 position, per se, or may not be that you're taking</p> <p>13 a position. You just make a market in that</p> <p>14 security.</p> <p>15 So if somebody comes in this week and says</p> <p>16 what would you sell a hundred million worth of</p> <p>17 30 years to me for? You're not necessarily making</p> <p>18 a bet, you're engaging in your activity which is</p> <p>19 to make a market in treasury security.</p> <p>20 Q. That's if you're a market maker but</p> <p>21 there were other people involved in the market --</p> <p>22 A. That's certainly true.</p>
<p style="text-align: right;">Page 195</p> <p>1 A. I don't think that they're talking</p> <p>2 about the flattening trade here.</p> <p>3 Q. Why not?</p> <p>4 A. Because it says we heard rumors as</p> <p>5 early as 9 a.m. which were flattening 5s and 30s.</p> <p>6 There's no word trade there. It's possible but I</p> <p>7 don't -- that wasn't how I interpreted the E-mail.</p> <p>8 It's possible but the way I read it was they were</p> <p>9 talking about this was changing the shape of the</p> <p>10 curve in the 5 to 30-year section, but.</p> <p>11 Q. Okay. The rumors were -- what was</p> <p>12 changing the size of the curve?</p> <p>13 A. Well, according to this person's</p> <p>14 E-mail, these rumors and people, presumably people</p> <p>15 trading, obviously the rumors themselves don't</p> <p>16 change the shape of the yield curve, so it has to</p> <p>17 be people's trading activity.</p> <p>18 Q. Okay. If one person is trading, let's</p> <p>19 take a flat injury. One person is trading on the</p> <p>20 price of a bond and they're trade is that, is</p> <p>21 based on the price of the bond going up and then</p> <p>22 making money, would there be another party to that</p>	<p style="text-align: right;">Page 197</p> <p>1 Q. So they may not be just making a</p> <p>2 market in that securing the 30-year bond that day,</p> <p>3 they might be selling --</p> <p>4 A. That's certainly true people could be</p> <p>5 establishing directional bets but I was talking</p> <p>6 more about people who are primary dealer, make</p> <p>7 markets in securities, it's their job to, all</p> <p>8 kinds of people come at them from different angles</p> <p>9 saying I want to buy this, I want to sell that.</p> <p>10 Q. But my question was a little broader?</p> <p>11 A. Okay. Sorry.</p> <p>12 Q. Now, the next sentence, "Someone told</p> <p>13 me they actually saw it on their website at 9:50."</p> <p>14 Do you know who this someone is that you're</p> <p>15 referring to in this E-mail?</p> <p>16 A. No.</p> <p>17 Q. Just to clarify, do you know who sent</p> <p>18 this E-mail to you?</p> <p>19 A. I believe it was Pat Haskel, but I'm</p> <p>20 not -- that's what I believe.</p> <p>21 Q. Did you personally hear any rumors,</p> <p>22 just to go back about flattening, in the 5s and</p>

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<p>1 30s?</p> <p>2 A. People putting out flattening trades</p> <p>3 or just.</p> <p>4 Q. You said rumors as early as 9 a.m.</p> <p>5 which were flattening the 5s and 30s. Did you</p> <p>6 observe any flattening in the 5s and 30s?</p> <p>7 MR. FREEBORNE: Flattening of the yield</p> <p>8 curve or?</p> <p>9 BY MS. WILLIAMS:</p> <p>10 Q. Flattening of the yield curve?</p> <p>11 A. I don't recall it sitting here today.</p> <p>12 Q. Do you recall observing any flattening</p> <p>13 trades in the 5s and 30s on October 31st?</p> <p>14 A. Again, from our vantage point in the</p> <p>15 market from the treasury, we didn't have the</p> <p>16 capacity to observe trading activity, we didn't</p> <p>17 have access to a trading platform, all we had</p> <p>18 access to was prices on Bloomberg and Reuters.</p> <p>19 Q. So no?</p> <p>20 A. No. Correct.</p> <p>21 Q. Did you go to the Treasury website</p> <p>22 before 10 a.m. on October 31st?</p>	<p>1 A. My understanding is that it was.</p> <p>2 Q. Based on what?</p> <p>3 A. I believe what I was told later.</p> <p>4 Q. Personally, did you ever -- did you do</p> <p>5 anything to personally -- besides what you were</p> <p>6 told, besides what someone else told you, do you</p> <p>7 have any personal knowledge?</p> <p>8 MR. FREEBORNE: The question is: Did</p> <p>9 you actually, as opposed to conversations you had</p> <p>10 with others, did you undertake any efforts to</p> <p>11 personally observe the website had it at 9:50?</p> <p>12 MS. WILLIAMS: Or before.</p> <p>13 A. I think I may have. I also know that</p> <p>14 the document that is attached here in terms of the</p> <p>15 quarterly funding announcement.</p> <p>16 BY MS. WILLIAMS:</p> <p>17 Q. When you say here, what are you</p> <p>18 talking about?</p> <p>19 A. I'm talking about Exhibit 14. That is</p> <p>20 -- I would not have had that file. The only two</p> <p>21 ways I could have had that file, by the file, I'm</p> <p>22 talking about the quarterly refunding document,</p>
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<p>1 A. I believe I may have.</p> <p>2 Q. Did you see the press release</p> <p>3 announcing the elimination of the bond?</p> <p>4 A. I believe I may have but I don't know.</p> <p>5 I don't know.</p> <p>6 Q. So you don't know what time you would</p> <p>7 have done that?</p> <p>8 A. I don't know.</p> <p>9 Q. At the time you received this E-mail</p> <p>10 do you know if it had been placed on the Treasury</p> <p>11 website?</p> <p>12 A. I think I knew at that point. Yes.</p> <p>13 Q. This is at 10:45?</p> <p>14 A. Yes. Okay.</p> <p>15 Q. Do you know if it was placed on the</p> <p>16 website before 9:50 as it says in this, stated by</p> <p>17 someone who might be Mr. Haskel?</p> <p>18 A. I'm sorry. Your question was whether</p> <p>19 I know? Do I know if it was --</p> <p>20 Q. Do you have any personal knowledge</p> <p>21 that the press release was on Treasury's website</p> <p>22 at 9:50 a.m.?</p>	<p>1 would have been either from the website or if</p> <p>2 someone in Domestic Finance had sent it to me</p> <p>3 because I was not -- this is a document -- all of</p> <p>4 the quarterly refunding documents are kept in a</p> <p>5 quarterly refunding folder by Domestic Finance.</p> <p>6 They the only people who are in the Office</p> <p>7 of Federal Finance or later the Office of Debt</p> <p>8 Management have rights to that folder, and I also</p> <p>9 didn't even work, because I worked in</p> <p>10 International Affairs, I wasn't even on the same</p> <p>11 server as Domestic Finance, so I couldn't have</p> <p>12 accessed this document unless it was either from</p> <p>13 the website or someone in Domestic Finance had</p> <p>14 sent it to me.</p> <p>15 Q. What about someone in public affairs,</p> <p>16 would they have had access to this press release?</p> <p>17 A. It could have been someone in public</p> <p>18 affairs, that's fair.</p> <p>19 Q. Do you know if someone in public</p> <p>20 affairs sent this to you?</p> <p>21 A. I don't think so. But I don't know</p> <p>22 that for a fact.</p>

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<p style="text-align: right;">Page 206</p> <p>1 MS. WILLIAMS: The E-mail that Mr.  2 Haskel sent out. We don't know the time.  3 MR. SHOPE: Which there's no time and  4 date stamp but it's been cut and pasted in.  5 A. Right.  6 MR. SHOPE: Okay.  7 A. I'm not sure.  8 BY MS. WILLIAMS:  9 Q. If Treasury hadn't already announced  10 it, what could you have told Mr. Haskel about the  11 decision?  12 A. If Treasury hadn't already announced  13 it at that point, I couldn't have said anything.  14 Q. Do you recall if you did talk about  15 whether Treasury cancelled it?  16 A. No, I would not have.  17 Q. Do you recall during your conversation  18 with Mr. Haskel, do you recall actually talking a  19 the fact that Treasury canceled it?  20 A. I think it must have been after,  21 certainly after it was either up on the website or  22 that there was something official that one could</p>	<p style="text-align: right;">Page 208</p> <p>1 Q. This is an, it appears to be an E-mail  2 from you to Robert.sbarra@us.hsbc.com on October  3 31st at 1056 a.m. and attaches a copy of the  4 quarterly refunding press release from that day?  5 A. Yes.  6 Q. Do you recall forwarding the press  7 release to Mr. Sbarra on the morning of October  8 31st, 2001?  9 A. No, but, you know, obviously I did do  10 that.  11 Q. If you could look at Exhibit 14 with  12 Exhibit 16.  13 A. Yes.  14 Q. On the list of recipients on  15 Exhibit 14 I don't see Mr. Sbarra's name, do you?  16 A. Nope.  17 Q. Do you know why he wasn't included in  18 this E-mail that you sent around 9:58 on October  19 31st?  20 A. Probably because I at that point  21 hadn't thought to put him on it but there were  22 other people at HSBC that were on it.</p>
<p style="text-align: right;">Page 207</p> <p>1 hang one's hat on that Treasury had, in fact, made  2 some type of decision, whether it was the website  3 or some of the stories on Reuters or Bloomberg,  4 I'm not quite sure, but because he was so --  5 because it wasn't about -- the conversation as I  6 recall it wasn't about that there's a speculation  7 but we don't know if it's really true, it was  8 there's a speculation and it's been proven to be  9 true.  10 Am I making sense that at that point it had  11 already been kind of validated and confirmed. So  12 but whether that was all -- whether that was prior  13 to 10 o'clock but during the time in which it had  14 already gone to the website, I don't actually  15 know.  16 MS. WILLIAMS: Let me mark this as 16.  17 (Deposition Exhibit No. 16 was marked for  18 identification.)  19 BY MS. WILLIAMS:  20 Q. Have you seen this document before,  21 Ms. Cetina?  22 A. No.</p>	<p style="text-align: right;">Page 209</p> <p>1 Q. Well, besides Mr. Berardi, do you  2 remember having any conversation with anyone else  3 at HSBC on the morning of October 31st about the  4 cancellation of the bond?  5 A. I think at some point I had a  6 conversation with Derrick Kehoe who was in London.  7 He was the gentleman I mentioned earlier who  8 worked with Central Bank services.  9 Q. Do you know in the crinology of what  10 happened that morning when you talked to Mr.  11 Kehoe?  12 A. Derrick was later, I mean, it was  13 certainly wasn't -- that was something that just  14 would happen later in the day.  15 Q. So after you had spoken to Mr. Haskel?  16 A. Definitely.  17 Q. Was it after you had spoken to Mr.  18 Sbarra?  19 A. I think it probably was.  20 Q. Your conversation with Mr. Sbarra, do  21 you know if that was after Mr. Haskel?  22 A. I think Pat may have been the first</p>

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<p>1 person I spoke to.</p> <p>2 Q. Do you know if the conversation with</p> <p>3 Mr. Sbarra was after you received an E-mail from</p> <p>4 Mr. Haskel, this E-mail that we've been talking</p> <p>5 about that you forwarded at 10:45?</p> <p>6 A. My conversation with --</p> <p>7 Q. Mr. Sbarra?</p> <p>8 A. Was --</p> <p>9 Q. After you received this E-mail from</p> <p>10 Mr. Haskel that you forwarded at 10:45?</p> <p>11 A. I don't think so. I don't think it</p> <p>12 was that late in the morning but I don't know the</p> <p>13 precise time.</p> <p>14 Q. Let me ask you a couple of more</p> <p>15 questions about --</p> <p>16 A. I'm sorry. If I might. I think it</p> <p>17 was after, in some fashion it was fairly clear</p> <p>18 that the decision was out there. So it wasn't</p> <p>19 purely again a phone call simply saying there's</p> <p>20 just rumors but we don't know yet if this was</p> <p>21 true, it was after it was clear that, certain that</p> <p>22 it was that the policy of Treasury was taken.</p>	<p>1 have had some earlier communication that morning,</p> <p>2 but I don't think we would have concluded -- I</p> <p>3 don't know.</p> <p>4 Q. You don't have personal recollection?</p> <p>5 A. No.</p> <p>6 Q. Let me ask you about the next E-mail</p> <p>7 that appears in Exhibit 10 on page 877. And I'm</p> <p>8 looking at the one that's at 11:41 a.m. Do you</p> <p>9 see that?</p> <p>10 A. Yes.</p> <p>11 Q. First sentence says, "Had a different</p> <p>12 primary dealer tell me that they received a call</p> <p>13 from John Jacobs from IDEA." Do you know John</p> <p>14 Jacobs?</p> <p>15 A. For some reason the name sounds</p> <p>16 familiar but I don't know why, so I think the</p> <p>17 answer is no.</p> <p>18 Q. What's IDE A?</p> <p>19 A. They do sort of reports on, I'm not</p> <p>20 quite sure how to describe them. They do kind of</p> <p>21 financial-type consulting. They do reports on</p> <p>22 different economic issues. I mean, they do, for</p>
Page 211	Page 213
<p>1 Q. So did you have any discussions with</p> <p>2 Mr. Sbarra about rumors that the information had</p> <p>3 leaked before the announcement?</p> <p>4 A. I seem to recall, yes, that there was</p> <p>5 some type of conversation to that affect.</p> <p>6 Q. Just to clarify, your conversation</p> <p>7 with him you believe was after the information had</p> <p>8 been made public and thereby the Treasury --</p> <p>9 A. Correct. So that it wasn't just him</p> <p>10 calling in at say 9 and saying I'm hearing this</p> <p>11 but we don't know what happened, you know,</p> <p>12 something like that, but it was already known.</p> <p>13 Q. Did you have any communications with</p> <p>14 him before it had been made public either by the</p> <p>15 website or the wires regarding Treasury maybe</p> <p>16 eliminating the 30-year bond?</p> <p>17 MR. SHOPE: This is with Mr. Sbarra?</p> <p>18 MS. WILLIAMS: Yes.</p> <p>19 A. I don't think so. No. I mean, I</p> <p>20 don't know if he and I may have had an earlier</p> <p>21 conversation that morning about the treasury</p> <p>22 market but I don't think we would have. So we may</p>	<p>1 example, reports on merging markets, reports on</p> <p>2 foreign exchange, different kinds of and so</p> <p>3 different kinds of asset classes.</p> <p>4 Q. Just to clarify, do you have any</p> <p>5 recollection of ever speaking directly to Mr.</p> <p>6 Jacobs?</p> <p>7 A. No.</p> <p>8 Q. Do you have any recollection about</p> <p>9 speaking directly to anyone from IDEA on October</p> <p>10 31st?</p> <p>11 A. No. I never confirmed any of this in</p> <p>12 the E-mail.</p> <p>13 Q. Did this primary dealer tell you how</p> <p>14 Mr. Jacobs supposedly obtained information about</p> <p>15 Treasury?</p> <p>16 A. No.</p> <p>17 Q. Did you ever ask this dealer why he</p> <p>18 didn't bring this information to your attention on</p> <p>19 the 30th of October because this says had a</p> <p>20 different primary dealer tell me they received a</p> <p>21 call from John Jacobs from IDEA yesterday?</p> <p>22 A. Yes.</p>

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<p style="text-align: right;">Page 214</p> <p>1 Q. Did you ask him why he hadn't called</p> <p>2 you on October 30th about this supposed E-mail?</p> <p>3 A. Not really. No. There were lots of</p> <p>4 rumors in the market and people don't, sometimes</p> <p>5 they call Treasury about them and sometimes they</p> <p>6 don't when the rumors are about Treasury.</p> <p>7 Q. Then says, "The same dealer reports</p> <p>8 the law is trading special on repo." Mr. Shope</p> <p>9 asked you some questions about trading on repo.</p> <p>10 Do you know if the 30 year had ever traded special</p> <p>11 on repo prior to October 30th, 2001?</p> <p>12 A. I'm sure at times it may have. One</p> <p>13 would have to go back and look at the data to see</p> <p>14 how often that had occurred.</p> <p>15 Q. Is there anything that prompts</p> <p>16 something to be trading, would have prompted the</p> <p>17 long bond to be trading special on repo prior to</p> <p>18 the 30th of October? I'm just the trying to</p> <p>19 figure out why something trades special?</p> <p>20 A. I mean, certainly if there's some lack</p> <p>21 of desire in the people who own the security to</p> <p>22 put it into repo, that can cause it to trade</p>	<p style="text-align: right;">Page 216</p> <p>1 A. Nope. Certainly that person didn't</p> <p>2 identify which European Central Bank. He did not</p> <p>3 say the European Central Bank, which would be ECB.</p> <p>4 He said a European Central Bank, which would mean</p> <p>5 a national Central Bank in the Europe system.</p> <p>6 Q. Approximately how many of those are</p> <p>7 there?</p> <p>8 A. 12, plus. I don't know.</p> <p>9 Q. More than one?</p> <p>10 A. Many. So obviously not something that</p> <p>11 would be easy to confirm and what would you say.</p> <p>12 Would you call up and say, I mean, unless the</p> <p>13 dealer identified to you what Europe Central Bank,</p> <p>14 you would have no way to independently verify and</p> <p>15 I don't think that, how can I say this, the people</p> <p>16 that would call us and we would call and discuss</p> <p>17 things with, they might describe the customer to</p> <p>18 you, but it would certainly get very awkward if</p> <p>19 persistently you were asking them who, the actual</p> <p>20 identify of the customer.</p> <p>21 In our particular business, certainly if</p> <p>22 that was something that someone else wanted to</p>
<p style="text-align: right;">Page 215</p> <p>1 special. The events around September 11th could</p> <p>2 have caused it to trade special. Though again, we</p> <p>3 would have to look at the data to see whether the</p> <p>4 30 year was, there was any -- whether that would</p> <p>5 have been unusual at that particular time.</p> <p>6 Q. Did you -- besides this dealer</p> <p>7 reporting to you that the borrower was trading</p> <p>8 special on repo, did you have any personal</p> <p>9 knowledge of whether it was trading special on</p> <p>10 repo on the 30th of October?</p> <p>11 A. You mean, did I check to see whether</p> <p>12 it was itself?</p> <p>13 Q. Yes.</p> <p>14 A. I can't recall whether or not I did.</p> <p>15 I don't think there's any documentation here</p> <p>16 indicating that I did.</p> <p>17 Q. Then the next sentence, "The third</p> <p>18 dealer in London said he heard a rumor that the</p> <p>19 long bond would be eliminated yesterday</p> <p>20 from European Central Bank." Did you talk to</p> <p>21 anyone at a European Central Bank about any rumors</p> <p>22 about the elimination of the long-term bond?</p>	<p style="text-align: right;">Page 217</p> <p>1 follow up on but they weren't in the business of</p> <p>2 naming by name who their customers were or who</p> <p>3 they were talking to.</p> <p>4 Q. Are you aware of whether or not there</p> <p>5 being rumors going around any European Central</p> <p>6 Bank that Treasury might eliminate the 30-year</p> <p>7 bond any previous times?</p> <p>8 A. No.</p> <p>9 Q. Have you ever heard of the phrase</p> <p>10 buyer on the rumor still in effect?</p> <p>11 A. Yes.</p> <p>12 Q. What is that phrase?</p> <p>13 A. Just that you there's some kind of</p> <p>14 speculation about something so let's say there's</p> <p>15 speculation that the feds can cut rates, so you</p> <p>16 buy the two-year note, for example, thinking that</p> <p>17 it will, the price will go up if the FMC cuts</p> <p>18 rates. Again, this is not meant as a example from</p> <p>19 the point of view of a federal reserve employee,</p> <p>20 it would be just a generic example.</p> <p>21 So again, someone in a long two-year note, I</p> <p>22 even bought it. The FMC cuts rates and then you</p>

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<p style="text-align: right;">Page 258</p> <p>1 Q. I know Mr. Shope asked you previously</p> <p>2 about Mr. Malvey's retirement. Do you have any</p> <p>3 personal knowledge as to why Mr. Malvey actually</p> <p>4 retired?</p> <p>5 A. No. I actually would have no personal</p> <p>6 knowledge because I'm not his supervisor, that's</p> <p>7 something really only people in the management</p> <p>8 chain would know. So everything about that is</p> <p>9 treasury rumor, treasury gossip and I don't think</p> <p>10 anyone really knows.</p> <p>11 Q. My last question and I meant to ask</p> <p>12 this earlier, prior to the, is it the cancellation</p> <p>13 of the 10-year note that you were asked about</p> <p>14 earlier? The 10-year note --</p> <p>15 A. The surprise reopening.</p> <p>16 Q. Surprise reopening. Thank you. Had</p> <p>17 you heard any rumors personally about the opening</p> <p>18 of the 10-year note before it was announced by</p> <p>19 Treasury?</p> <p>20 A. I don't recall.</p> <p>21 MS. WILLIAMS: I have no further</p> <p>22 questions.</p>	<p style="text-align: right;">Page 260</p> <p>1 MR. SHOPE: Great. Thank you very much</p> <p>2 for your time. I appreciate it.</p> <p>3 THE VIDEO OPERATOR: This concludes the</p> <p>4 videotape deposition of Jill Cetina. It consists</p> <p>5 of four videotapes. We're off the record at</p> <p>6 4:14:42.</p> <p>7 (Deposition concluded at 4:14 p.m.)</p> <p>8</p> <p>9</p> <p>10</p> <p>11</p> <p>12</p> <p>13</p> <p>14</p> <p>15</p> <p>16</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p>
<p style="text-align: right;">Page 259</p> <p>1 MR. SHOPE: I'll just mark the time,</p> <p>2 then I'll have one.</p> <p>3 THE VIDEO OPERATOR: The time is</p> <p>4 4:13:42.</p> <p>5 MR. SHOPE: Hopefully one last</p> <p>6 question, Ms. Cetina.</p> <p>7 MR. FREEBORNE: Well, this is the last</p> <p>8 round.</p> <p>9 FURTHER REDIRECT EXAMINATION</p> <p>10 BY MR. SHOPE:</p> <p>11 Q. You said you wouldn't know about Mr.</p> <p>12 Malvey's retirement because you weren't his</p> <p>13 supervisor. Who was his supervisor who would have</p> <p>14 that knowledge?</p> <p>15 A. I presume a decision like that would</p> <p>16 have been made and this is a presumption, not that</p> <p>17 I have knowledge, but I would think Tim Bitsberger</p> <p>18 and/or Brian Roseboro would have been involved in</p> <p>19 that kind of significant personnel decision.</p> <p>20 Q. Anybody else?</p> <p>21 A. I have no idea. That would be pure</p> <p>22 speculation on my part.</p>	<p style="text-align: right;">Page 261</p> <p>1 ACKNOWLEDGMENT OF DEPONENT</p> <p>2 I, JILL CETINA, do hereby acknowledge that I have</p> <p>3 read and examined the foregoing pages of</p> <p>4 testimony, and the same is a true, correct and</p> <p>5 complete transcription of the testimony given by</p> <p>6 me, and any changes and/or corrections appear on</p> <p>7 the attached errata sheet signed by me.</p> <p>8</p> <p>9</p> <p>10</p> <p>11</p> <p>12 (Date) JILL CETINA</p> <p>13</p> <p>14</p> <p>15</p> <p>16</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p>

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# **EXHIBIT B**





## LEHMAN BROTHERS

### FIXED INCOME RESEARCH

Wednesday October 31, 2001

# Interest Rate Strategies

## Treasuries, Agencies, Swaps, Futures & Options

**Jeffrey D. Biby**  
jbiby@lehman.com  
201-524-2291

### Governments/Swaps

**Doug Johnston**  
djohnst@lehman.com  
201-524-4539

### Agencies

**Mukul Chadda**  
mchadda@lehman.com  
201-524-4539

**Judy Goldfarb**  
jgoldfar@lehman.com  
201-524-4539

### Derivatives

**Shashank Agrawal**  
shaagraw@lehman.com  
201-524-4539

### Mortgages

**Srinivas Modukuri**  
modukuri@lehman.com  
201-524-4539

### Economics

**Drew Matus**  
dmatus@lehman.com  
201-524-4539

### Treasury Refunding

Treasury refunding announcements have become one of the more volatile days and yesterday's announcement was not a disappointment. The 5-year note was larger than expected but that played second fiddle to the announcement of the suspension of bond issuance and the possible curtailment of the buyback program. Clearly the U.S. Treasury sees the same value in curve flatteners as we do and, coupled with the better than expected economic news, this could be the event that reverses the steepening trend that has been in place since the middle of 2000. Yesterday was certainly a good start.

By the end of the day on Wednesday, the bond had rallied 33 bp, tens 15 bp, fives 8.5bp, and twos only 4 bp. The bond richened to the old bond by 5 bp and 5.5 bp versus the fitted curve. On spread to swaps, the long-end richened up 14 bp, while other maturity spreads were stable to tighter. For example, 10-year spreads were 2 bp tighter on convexity hedging as fears of a rally-flattener mount. The 5-year roll closed at around +7.25 bp, which is reasonable given the shape of the curve and the larger the expected size (\$16 bn).

Were we surprised by the elimination of the long bond? Yes. We didn't expect the Treasury to eliminate any issue given the outlook for the fiscal budget over the next 1-2 years. Were we very surprised by the elimination? No. We knew the Treasury was going to focus increased net issuance in the front-end of the yield curve and, we felt they had an inert desire not to be "responsible" for an increase in long-term yields. With the very real possibility of needing to stop repurchasing debt in long-end, the Treasury probably felt that there would be have less of an impact if it was offset by cutting the bond at the same time. They will repurchase \$5.5 bn over the next 2-months for sure, helping off the run bonds. They will not buy anything back in Jan and then shift their buyback announcements to be in synch with the refundings.

One thing we did know going into the refunding announcement, however, is that there is relative value in the long-end and curve flatteners. Long forward rates, which were reflecting concerns around supply, in addition to some fairly robust, and distant, economic assumptions, were set to rally. The only thing missing was the spark. The signal the Treasury sent was 1) they see value in curve flatteners and 2) they believe the longer-term surplus story. Between the lines, however, was the hidden desire, by them and the Fed, to see long-term rates move lower. The steep curve is not doing much to liquify the consumer, as mortgage rates have not rallied nearly as much as short rates. With fiscal and monetary policy in high gear, the administration wants to do everything, much like in early 93, to insure long-term rates move lower to join the cause.

We reiterate our message that we have been preaching over the last month: Flatteners offer the best risk/reward at this point in the economic cycle with the short-end fully priced and the long-end relatively cheap.

CONFIDENTIAL TREATMENT  
REQUESTED BY MASS  
FINANCIAL SERVICES CO.  
W 000461

SECNOH00130122

# **EXHIBIT C**

1 UNITED STATES DISTRICT COURT  
 2 DISTRICT OF MASSACHUSETTS  
 3 - - - - - )  
 4 UNITED STATES SECURITIES AND )  
 5 EXCHANGE COMMISSION, )  
 6 Plaintiff, )  
 7 v. ) No. 05-10983 (NMG)  
 8 STEVEN E. NOTHERN, )  
 9 Defendant. )

10 - - - - - )

11 Washington, D.C.

12 Friday, June 23, 2006

13 Deposition of PAUL FRANCIS MALVEY, a witness herein,  
 14 called for examination by counsel for Defendant in  
 15 the above-entitled matter, pursuant to agreement, the  
 16 witness being duly sworn by CHERYL A. LORD, a Notary  
 17 Public in and for the District of Columbia, taken at  
 18 the offices of FOLEY HOAG LLP, 1875 K Street, N.W.,  
 19 Suite 800, Washington, D.C., at 10:10 a.m., Friday,  
 20 June 23, 2006, and the proceedings being taken down  
 21 by Stenotype by CHERYL A. LORD, RPR, CRR, and  
 22 transcribed under her direction.

23

24

25

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<p>1 come in here, they'd walk in here and either go here 2 or go here. 3 This wasn't for commoners. This wasn't 4 for other people. It was -- it was -- it was kind of 5 a private hallway that usually -- I don't want to say 6 private, but secretary or undersecretary would enter 7 so they could enter the front of the room and not 8 have to walk up all the way through the room. 9 I wouldn't use that. I went in here, and 10 I was SES and director of the office. 11 Q. Now, did you ever hear of any reports in 12 advance of October 31 that the long bond was going to 13 be suspended? 14 MR. ROSSETTI: Objection. 15 A. Reports in the media, you mean? 16 BY MR. SHOPE: 17 Q. Yeah, or within the market. 18 A. Don't recall. 19 I mean, if you want to say, just before 20 October 31, yeah, I probably heard reports over the 21 previous 2 years, because I mentioned -- you know, a 22 lot of them were mentioned in these articles, and 23 they were -- there were articles, don't kill the long 24 bill. There were articles, kill the long bill. 25 Q. Okay. Now, I'm not asking you about</p>	<p>1 A. I recall this, yeah. 2 BY MR. SHOPE: 3 Q. Okay. So you recall receiving exhibit 7? 4 A. No, no, no. 5 I recall the rumor that the long bond may 6 be eliminated. 7 Q. Okay. And is that something that you 8 heard -- that you learned about after the fact that 9 it had been circulating in advance of October 31, or 10 did you hear it -- did you hear it even before 11 October 31? 12 A. I don't recall, but I mean, I -- I 13 remember this was part of the discussion that day 14 about a rumor on the long bond, and I don't know 15 about this guy from John Jacobs -- I don't know who 16 he is, but I heard a rumor something about on the 17 euro market. I forget where it was, but I heard 18 something on the euro. 19 Yeah, I'm on the list. I'm addressed on 20 this list. Yeah. I saw it, and that's -- and I said 21 that definitely Treasury was going to do it, and this 22 just -- this is a rumor. 23 And I'm not being flip. I mean, rumors 24 fly around the fixed income market, just -- Pete 25 wouldn't -- I mean, talk to people about fixed income</p>
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<p>1 people who are discussing as a matter of policy 2 whether it's a good idea or a bad idea, because 3 that's -- those are the articles that you just 4 referenced. 5 Right? 6 A. Yeah, I think so. 7 Q. I'm asking about a report that says, 8 Treasury is going to do this. 9 A. A specific report? 10 Q. Yeah. 11 A. I don't recall. 12 Q. Okay. 13 A. Saying they are going to do it? 14 Q. Yeah. 15 A. With certainty? 16 Q. Yeah. 17 A. No. 18 Q. All right. 19 (Malvey Exhibit No. 7 20 was marked for 21 identification.) 22 BY MR. SHOPE: 23 Q. Show you what's been marked as exhibit 7. 24 A. James Sharer. 25 (Pause.)</p>	<p>1 rumors -- fixed income markets and rumors. 2 MR. ROSSETTI: Which Pete are you 3 referring to? 4 THE WITNESS: Pete Davis. 5 A. It's a rumor. 6 BY MR. SHOPE: 7 Q. Okay. Well, did anybody at Treasury to 8 your knowledge ever follow up to try to find out 9 which European central bank it might have been that 10 might have been disseminating this information? 11 A. I think it -- well, I'm not quite sure, 12 but I think it means the ECB, because it's the euro. 13 There's an institution called the European Central 14 Bank. And I thought that was it, but I don't know. 15 Q. So the question is, was there ever any 16 followup to try to find out whether or not -- 17 A. I think there was, but I'm not familiar 18 with it. I think -- I think there was, but I'm not 19 familiar with it. I don't recall anything about, 20 yeah, there was -- you know, so-and-so said this. 21 Q. Do you know who it was that would have 22 done the followup? 23 A. I don't. 24 And let me just explain something. 25 Treasury is a very, very small place. I</p>

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Paul F. Malvey

June 23, 2006

Washington, DC

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1 A. I saw some --  
 2 MS. WILLIAMS: Objection.  
 3 BY MR. SHOPE:  
 4 Q. Okay. I'll show -- and I believe you also  
 5 said -- correct me if I'm wrong -- that you had  
 6 pointed out what you thought were some inaccuracies  
 7 in the memorandum that you reviewed with Ms. Williams  
 8 and Mr. Rossetti; is that correct?  
 9 A. I saw something, and then I read it, and  
 10 got -- right, and I saw some inaccuracy, right.  
 11 Q. Okay. All right.  
 12 I'm showing you what's been marked as  
 13 exhibit 11 to your deposition.  
 14 (Malvey Exhibit No. 11  
 15 was marked for  
 16 identification.)  
 17 BY MR. SHOPE:  
 18 Q. And obviously you'll spend some time with  
 19 it, but -- now, I've got too many -- the first  
 20 question -- and if you need to take time, that's  
 21 fine -- the first question is whether or not exhibit  
 22 11 is the memorandum that you reviewed with  
 23 Ms. Williams and Mr. Rossetti during your meeting in  
 24 advance of the deposition.  
 25 A. Do you mind if I just re-read it?

1 I mean, I wouldn't view those 2 things as  
 2 my most important things, because having market  
 3 contacts comes with the job. I don't go out and try  
 4 to maintain them. They -- anyway, that's a nit.  
 5 Q. So in other words, you do -- you were  
 6 maintaining market contacts, but it wasn't something  
 7 you were trying to do.  
 8 It just came with the territory?  
 9 A. Exactly. Yeah.  
 10 I'm -- correct. I mean, I would say,  
 11 remain current with financial markets and financial  
 12 analysis and policy recommendations, is how I'd  
 13 describe my job. But that's a nit anyway.  
 14 And then on the first full paragraph,  
 15 second page, I said that: Because the turmoil  
 16 following September 11 disaster, January -- because  
 17 of the turmoil following the September 11 disaster,  
 18 the January 30, 2002, quarterly financing meeting  
 19 would have been a better forum.  
 20 I mean, September -- I did mention that  
 21 September 11 may have directed people's attention  
 22 elsewhere away from debt management policy. But that  
 23 was not the reason I said it would be better to  
 24 postpone it.  
 25 And this was the arguments I made in-house

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1 I think it's --  
 2 Q. Please. Take as much time as you need.  
 3 A. Yeah. All right.  
 4 (Pause.)  
 5 BY MR. SHOPE:  
 6 Q. Okay. Have you had a chance to look  
 7 through exhibit 11?  
 8 A. Sure.  
 9 Q. First of all, is that the memorandum that  
 10 you reviewed with Ms. Williams and Mr. Rossetti at  
 11 the SEC in preparation for your deposition?  
 12 A. I wouldn't say, reviewed.  
 13 They showed me this and asked me if I  
 14 thought it was correct, and I pointed out a couple  
 15 things that I didn't think were accurate.  
 16 Q. What were the things that you pointed out  
 17 of things in exhibit 11 that you thought were  
 18 inaccurate?  
 19 A. I -- the first full par on the second page  
 20 -- well, I'm sorry.  
 21 Just stepping back, the third paragraph on  
 22 the first page, it says, I've -- as director of  
 23 market financing, I try to remain current with the  
 24 financial markets and maintain market current  
 25 contacts.

1 with Peter, was that this whole notion of giving the  
 2 markets another bite at the apple, make an  
 3 announcement that we're killing it, but have a last  
 4 auction, which would have been February 15th, so  
 5 that's what -- really the reason that I thought the  
 6 postponement would have been better.  
 7 Q. Well, hold it.  
 8 Actually, let's follow up on that.  
 9 If the idea was to have an announcement  
 10 and then give a second bite of the apple --  
 11 A. Last bite.  
 12 Q. -- last bite of the apple, how would that  
 13 relate to when you made the announcement?  
 14 Because by hypothesis, when you're making  
 15 the announcement, there's going to be a further bite  
 16 at the apple at a later date.  
 17 Right?  
 18 MS. WILLIAMS: Objection.  
 19 A. No, because that's what happened. Peter  
 20 made the announcement. No more bites.  
 21 BY MR. SHOPE:  
 22 Q. I understand that, but what it says here  
 23 in the first full paragraph on page 2 is that the  
 24 January 30, 2002, quarterly funding meeting would  
 25 have been a better forum to announce the suspension

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<p style="text-align: right;">Page 246</p> <p>1 of sales of the 30-year bond, so that is -- that's</p> <p>2 not going to the question of whether or not there's a</p> <p>3 last bite at the apple.</p> <p>4 That's going to the question as to when</p> <p>5 you announce.</p> <p>6 A. No, because --</p> <p>7 MS. WILLIAMS: Objection.</p> <p>8 A. -- the reason that January 30 would be</p> <p>9 better is because we had a scheduled 30-year auction</p> <p>10 in February, and that's why it would have been better</p> <p>11 to announce it, because the investors -- it's just</p> <p>12 not finished out in this sentence here, because</p> <p>13 whoever wrote these notes didn't make the connection</p> <p>14 between the January 30 announcement and the February</p> <p>15 15 settlement of a 30-year bond.</p> <p>16 That's what -- that's the reason I was</p> <p>17 saying Jan 30 would would have been better for the</p> <p>18 announcement, because that would have been right</p> <p>19 before the sale of a preschedule -- already on the</p> <p>20 schedule 30-year bond.</p> <p>21 That's what I meant.</p> <p>22 BY MR. SHOPE:</p> <p>23 Q. Yeah, but you could have made the</p> <p>24 announcement on October 31 and then announced that</p> <p>25 there would be a last bite at the apple in February.</p>	<p style="text-align: right;">Page 248</p> <p>1 the time.</p> <p>2 And somebody asked me that, and after</p> <p>3 having been at the other side of the table listening</p> <p>4 to Peter's arguments about his view of the 30-year</p> <p>5 and having made my arguments about my view of the</p> <p>6 30-year, I think he would have made the same</p> <p>7 arguments in August.</p> <p>8 And so, yes, I -- I -- who the hell knows,</p> <p>9 but I think he would have made the same arguments in</p> <p>10 August. Whether we would have made the announcement</p> <p>11 in August is another thing, because he would have had</p> <p>12 to justify making the announcement in August to the</p> <p>13 rest of us too.</p> <p>14 Q. But I mean, but basically this gets the</p> <p>15 gist -- that was your opinion?</p> <p>16 A. Yeah, it gets the gist, yeah.</p> <p>17 Right.</p> <p>18 MS. WILLIAMS: Objection.</p> <p>19 A. All right. And the one, 2, 3 -- third</p> <p>20 full paragraph talking about Drew Matus.</p> <p>21 He came in -- I think he may have</p> <p>22 scheduled to meet with Jeff, but Jeff was also new.</p> <p>23 I think Jeff had only been there since August, I</p> <p>24 think.</p> <p>25 BY MR. SHOPE:</p>
<p style="text-align: right;">Page 247</p> <p>1 Right?</p> <p>2 MS. WILLIAMS: Objection.</p> <p>3 A. He could have.</p> <p>4 I mean, coulda, woulda, shoulda.</p> <p>5 It's -- it would have -- I'm sorry.</p> <p>6 I didn't mean to be disrespectful, but</p> <p>7 because there was such a scarcity premium on the</p> <p>8 security to start with, that would have given 3</p> <p>9 months for the markets to gyrate around and be more</p> <p>10 volatile at the long end because of all the</p> <p>11 uncertainty about its future, where if you made the</p> <p>12 announcement on January 30, the sale would be 5 days</p> <p>13 later, and WY market would have established the</p> <p>14 market price, and there was much less chance for</p> <p>15 volatility.</p> <p>16 BY MR. SHOPE:</p> <p>17 Q. Okay. So what else was inaccurate in</p> <p>18 exhibit 11?</p> <p>19 A. I'm not saying inaccurate.</p> <p>20 I'm just saying it didn't convey the</p> <p>21 flavor.</p> <p>22 And it's -- it -- the next sentence says:</p> <p>23 It was also Malvey's opinion that undersecretary</p> <p>24 Fisher would have made the announcement at the</p> <p>25 quarterly funding meeting if he had been confirmed of</p>	<p style="text-align: right;">Page 249</p> <p>1 Q. You're speaking of Jeff Huther now?</p> <p>2 A. Jeff Huther. Right.</p> <p>3 And I think it was because Woody was</p> <p>4 either about -- was -- oh, here it is:</p> <p>5 He was vice chairman. The -- usually the</p> <p>6 chairman of the borrowing advisory committee, his</p> <p>7 staff works up these pro forma forecasts that I</p> <p>8 mentioned earlier today, and for some -- and the</p> <p>9 vice-chairman usually follows the chairman -- that's</p> <p>10 also almost pro forma.</p> <p>11 And the October meeting would have been</p> <p>12 the last meeting for the outgoing chairman, and Drew,</p> <p>13 some reason Woody asked Drew to do these things. He</p> <p>14 had never done them before.</p> <p>15 So he worked up these pro forma</p> <p>16 forecasts -- he had access to other ones out there</p> <p>17 and previous ones, and he worked up these pro forma</p> <p>18 forecasts. And I don't know if he came down to</p> <p>19 Washington specifically for that, but he asked Jeff,</p> <p>20 is it okay if I run these by you to tell me whether</p> <p>21 they're reasonable, a reality test or something like</p> <p>22 that.</p> <p>23 And I mean, it says that I spoke with him</p> <p>24 briefly, but it might have been -- "briefly" is --</p> <p>25 the 2 of them came into my office, and we put these</p>

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1 things out on the table in front of us, and asking  
 2 me, you know, does all this stuff look reasonable and  
 3 stuff, so I -- it was -- I forget exactly what the  
 4 nature of the conversation, but I might have said  
 5 something like, what if it -- do you have any  
 6 alternatives, what if Woody says, how about this, are  
 7 you ready to go with alternatives, I mean, because  
 8 the meeting is going to be next Tuesday, he's  
 9 going -- he has -- he has -- well, proper prior  
 10 preparation, so I was trying to help him out like I  
 11 help a lot of people.

12 Q. One of those alternatives would have been  
 13 suspending the issuance of the long bond.

14 Right?

15 MS. WILLIAMS: Objection.

16 A. It -- not necessarily would have been, but  
 17 it may have come up. I don't recall it coming up.

18 I mean, I don't -- I don't recall him

19 having 2 scenarios, but maybe he did. I don't know.

20 I just remember looking and seeing if it's  
 21 feasible, because we were making so many changes,  
 22 and, you know, I may have asked him, do you have an  
 23 alternative scenario if the long bond is not there,  
 24 or something like that.

25 I don't know. I don't recall saying it,

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1 but I -- it just seems like --

2 BY MR. SHOPE:

3 Q. Well, that was the elephant in the room,  
 4 wasn't it?

5 MS. WILLIAMS: Objection.

6 A. I don't think so.

7 BY MR. SHOPE:

8 Q. I thought -- didn't you refer to that as  
 9 the elephant in the room earlier today in your  
 10 deposition?

11 MS. WILLIAMS: Objection.

12 A. I don't recall my context.

13 BY MR. SHOPE:

14 Q. To suspending the long bonds.

15 A. Yeah, I know, but --

16 Q. This is an issue at the October 30 --  
 17 there was an elephant in the room, as you say, at the  
 18 October 30 meeting of the borrowing advisory  
 19 committee.

20 MS. WILLIAMS: Objection.

21 I think this mischaracterizes his  
 22 testimony.

23 A. I don't recall saying that. And we just  
 24 went over the minutes, and it doesn't -- it's not  
 25 included in there.

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1 BY MR. SHOPE:

2 Q. So you're saying you just don't remember  
 3 one way or the other whether or not the suspension of  
 4 the long bond came up in your discussion with  
 5 Mr. Matus of William Brothers?

6 A. I don't recall the discussion coming up.

7 But I wouldn't be surprised if I said  
 8 things like, do you have an alt- -- what if -- what  
 9 if we -- the -- what if the long bond is eliminated  
 10 sometime in the next year, do you have an alternative  
 11 for that. What if we go from quarterly to semiannual  
 12 tens, 10-year securities.

13 And it was more like I'd say, well, what  
 14 if Woody says, how about this. It was kind of like  
 15 asking him questions trying to get him prepared for  
 16 his boss to get ready for this meeting, you know.

17 Q. M-hm.

18 A. But I don't recall the context of this  
 19 300- -- or 800-pound elephant.

20 Q. Well, the testimony obviously will speak  
 21 for itself.

22 Now, were there any other inaccuracies  
 23 that you noted --

24 A. Yeah.

25 Q. -- in exhibit 11?

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1 A. I don't know. All right.

2 The last paragraph on page 2 continues  
 3 on -- I'm not quite -- I'm -- it's a long time ago,  
 4 but I -- I remember answering the phone and asking  
 5 Jill.

6 Then the next page says, I introduced  
 7 myself to him at a press conference in 1996. And  
 8 it's -- it -- this is something I have a recollection  
 9 of, is, I walked over, and Jill and Roger were  
 10 standing over -- point out exactly where they were  
 11 standing.

12 They were standing by the side door. And  
 13 Roger had done the press conference, so I think -- so  
 14 that had to have been pre-Gensler. They were just  
 15 standing there making small talk.

16 And I was Jill's deputy and just walked  
 17 over and say, good job, Roger, or something like  
 18 that. And he introduced me to -- Paul, this is Pete  
 19 Davis, Pete Davis, Paul Malvey. And, hi.

20 And Roger says, he's one of the good guys.  
 21 And I think I mentioned that earlier today, because  
 22 Roger just -- Roger is a man of few words.

23 Q. M-hm.

24 A. And for him to say, one of the good guys,  
 25 I remember saying, I wonder what he means by that,



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<p>1 cause he doesn't usually say much about anybody, 2 da-da-da-da -- excuse me. 3 Q. So that's one memory that you have a lot 4 of confidence in? 5 A. Right. Yeah. 6 And I think that's the first time I shook 7 his hand, said hello, or whatever. So I don't think 8 I walked -- I wouldn't have a reason to walk up to 9 him -- I wouldn't have a reason to walk up to anybody 10 in the room to be honest with you. 11 Conference is over. I'm standing there 12 tired as hell waiting for everybody to leave and go 13 home. 14 Q. Now, is that an incident that you just 15 forgot when you were talking to the people who 16 prepared exhibit 11? 17 A. Well, I -- 18 MS. WILLIAMS: Objection. 19 A. I wouldn't say, forgot, because I don't 20 know how the hell -- you know, they're taking notes. 21 I don't know, you know, when -- what -- 22 BY MR. SHOPE: 23 Q. All right. 24 A. I don't know when -- how long later the 25 notes were written and whether the person's</p>	<p>1 policy of keeping information confidential because of 2 the nature of the business. Everybody in this office 3 has appreciation of sensitivity of what they discuss. 4 I mean, it's -- I mean, that's true, but 5 I -- and in the financial markets, your word is your 6 bond, and it's kind of like with us. We say, well -- 7 it's -- our word is our bond. It means everything. 8 And so we know you're not supposed to talk 9 about something, you're not going to talk about it. 10 That's what I -- just making that point. 11 Q. Okay. So it's not really that this is 12 inaccurate. 13 It's just that's a -- 14 A. It's a really strong thing that was 15 instilled in me when I first got there back in '78. 16 Q. But otherwise -- 17 A. Yeah. 18 I mean, it's the same thing. I'm just 19 giving it time. It's nit-picking. 20 (Pause.) 21 A. It says the third time that I had contact 22 with Davis was at this specific con- -- thing. But 23 it's my recollection I took -- talked to him twice on 24 the phone back in '96 and again maybe even before 25 this conference about clearing him in, but there was</p>
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<p>1 recollection -- whether the person was looking at the 2 clock on the wall when I was saying this and came 3 back and wrote that I introduced myself and missed 4 the first part of the thing. 5 I don't -- I'm just saying, this is what I 6 see, and this is what I recall. I'm just saying 7 they're different. 8 I'm not saying this is -- 9 Q. Okay. I'm sorry. 10 The line about you introduced yourself. 11 A. Yeah, top of page 2 -- oh, I'm sorry -- 12 top of page 3. 13 Q. Okay. Okay. 14 So -- okay. 15 So you -- so basically what you're saying 16 is, your memory is that Anderson -- that Roger 17 Anderson introduced Davis to you rather than Davis 18 having introduced himself? 19 A. You know, no big deal. 20 Q. Yeah. 21 A. But can I go back to page 2 or 3? 22 Q. Yeah. 23 A. I'm sorry. 24 Second full par, he said -- last sentence 25 was: Malvey said he was not aware of any formal</p>	<p>1 another time that I had contact with him where he 2 called and he was looking for information, and I 3 mentioned that earlier today, and I said I felt 4 awkward. I didn't give him any. 5 BY MR. SHOPE: 6 Q. So was that just an incident that you had 7 forgotten about when you were talking to the 8 Inspector General's office? 9 MS. WILLIAMS: Objection. 10 A. You know, this is 5 years ago. All I'm 11 saying is, I remember -- and I thought that I had 12 mentioned it then, because I was much closer to it, 13 that sometime in the few months leading up to the 14 '01 -- October '01 press conference, Peter called -- 15 my line started, hi, how you doing, 16 da-da-da-da-da-da, and stuff, and started asking me 17 questions about our plans for debt management policy. 18 I don't recall what they were, whether it 19 was 30-year bond, not 30-year bond, whatever. It 20 was -- I thought they were very forward questions, 21 and I thought it was unusual for him to think that I 22 may answer them even. 23 BY MR. SHOPE: 24 Q. M-hm. 25 A. And I said something -- you know, Pete,</p>

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<p>1 you know, I can't talk about that or whatever it was.</p> <p>2 Q. M-hm.</p> <p>3 A. And I hung up.</p> <p>4 I mean, we ended the call. I didn't hang</p> <p>5 up on him.</p> <p>6 And the last par -- it wasn't my curiosity</p> <p>7 to call Jill. It was somebody who was setting up a</p> <p>8 meeting for me asked me if I knew were Jill Ousley</p> <p>9 was. I said yes. Do you have her telephone number,</p> <p>10 can we have it.</p> <p>11 I said, well, let me give her a call</p> <p>12 first -- I don't know if it was Treasury or SEC --</p> <p>13 and the reason for me calling her, you know, was</p> <p>14 saying, there's an investigation going on, you</p> <p>15 probably heard about da-da-da-da -- I'm sorry --</p> <p>16 and they want to talk to you.</p> <p>17 And at that conver- -- in that</p> <p>18 conversation, I said, it's about Pete Davis, remember</p> <p>19 that guy that used to come to these meetings. And</p> <p>20 she said, Pete who. And I said, Pete Davis. And she</p> <p>21 says, I don't recall -- Davis? -- whatever.</p> <p>22 It went along those lines. And I was</p> <p>23 just -- I was just amazed. And I -- and she's a</p> <p>24 friend of mine, so I didn't pursue it. I didn't --</p> <p>25 she was going to say she didn't remember him, she</p>	<p>1 But on the other hand, I was -- I did not</p> <p>2 know the universe of people who showed up, so there</p> <p>3 were people I didn't recognize, and so I don't know</p> <p>4 where they came from, but I do know that other people</p> <p>5 beyond being in Treasury.</p> <p>6 Q. It says here that, Malvey said that he did</p> <p>7 not realize until after the fact that the press</p> <p>8 conferences were only for credentialed press.</p> <p>9 A. Oh, that -- that -- excuse me -- yes.</p> <p>10 Q. That's in the second full paragraph of</p> <p>11 page 3.</p> <p>12 A. Yeah, that's like a time-shift thing.</p> <p>13 Where is that?</p> <p>14 Is that the same sentence?</p> <p>15 MS. WILLIAMS: Second-to-last paragraph,</p> <p>16 last sentence.</p> <p>17 A. I did not -- yes.</p> <p>18 That's true -- I did not realize and I</p> <p>19 don't think anybody in my office or outside of the</p> <p>20 press office realized that that was only for</p> <p>21 credentialed press.</p> <p>22 BY MR. SHOPE:</p> <p>23 Q. Well, I mean, everybody knew that it was</p> <p>24 okay for people from the other federal agencies to</p> <p>25 attend.</p>
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<p>1 didn't remember him for whatever her reasons. She</p> <p>2 didn't want to remember him.</p> <p>3 Q. But you could have just given the SEC or</p> <p>4 the Inspector General Ms. Ousley's telephone number</p> <p>5 in Florida and just left it at that.</p> <p>6 Right?</p> <p>7 MS. WILLIAMS: Objection.</p> <p>8 A. No, because I thought it was a courtesy</p> <p>9 to -- I mean, I would have given to them. I thought</p> <p>10 it was a courtesy to call a friend and say, listen,</p> <p>11 so-and-so is asking me for your number, I'm just</p> <p>12 giving you a heads-up. Okay. And I thought that was</p> <p>13 a common courtesy.</p> <p>14 I did that and then I gave the number.</p> <p>15 That's the way I was brought up.</p> <p>16 BY MR. SHOPE:</p> <p>17 Q. Now, did you note any other inaccuracies</p> <p>18 in the memorandum of -- it's exhibit 11.</p> <p>19 A. Did you?</p> <p>20 I'm sorry.</p> <p>21 Well, this -- I guess the second line par:</p> <p>22 I was not aware of anyone other than press, OMB, and</p> <p>23 Treasury officials, and Davis. And I had mentioned</p> <p>24 that GAO, CBO, other people had called me, so there</p> <p>25 were other people.</p>	<p>1 Right?</p> <p>2 A. Well, after all this happened, the press</p> <p>3 office said, oh, this is only for credentialed press.</p> <p>4 I had never heard that before.</p> <p>5 Q. Well, did -- from -- after October 31,</p> <p>6 2001, did the press office begin excluding</p> <p>7 representatives from --</p> <p>8 A. I don't know.</p> <p>9 Q. You got to wait till I'm done.</p> <p>10 A. I'm sorry.</p> <p>11 Yeah.</p> <p>12 Q. So after October 31, 2001, did the press</p> <p>13 office start excluding representatives of other</p> <p>14 federal agencies from the quarterly refunding</p> <p>15 conferences --</p> <p>16 A. I don't know.</p> <p>17 Q. You've got to wait until I'm done.</p> <p>18 A. Okay. I'm sorry.</p> <p>19 Q. So take it from the top.</p> <p>20 After October 31, 2001, did the press</p> <p>21 office or for that matter anybody else at Treasury</p> <p>22 begin excluding from the quarterly refunding</p> <p>23 conference representatives of other federal agencies?</p> <p>24 A. I'm not aware of it.</p> <p>25 I'm trying to think: Bob Fitzpatrick, who</p>

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<p style="text-align: right;">Page 262</p> <p>1 was the budget person over at OMB, was at just about  2 every one of these. I -- I don't know. There's 2  3 things.  4 Maybe they -- you know, like CBO or GAO.  5 Maybe she just didn't happen to call me for the next  6 month because they weren't working on anything, but  7 if anybody from another agency had asked to be  8 admitted, it would be this guy, Bob Fitzpatrick,  9 because he was so interested in stuff, and I can call  10 and ask him or you can call and ask him or whatever.  11 I'm not aware of anything.  12 Q. Okay. Did you note any other inaccuracies  13 in the -- in the exhibit 11?  14 A. Exhibit 11.  15 Q. This is the memorandum of interview.  16 A. Well, I said, possible suspension of sales  17 of Treasury 30-year bond have been discussed within  18 Treasury for quite -- I mean, within Treasury and  19 without Treasury.  20 I mean, it was a common -- it wasn't  21 uncommon. That's why I mentioned, the American  22 Enterprise Institute even had a conference on  23 financing.  24 And I mentioned the January and I  25 mentioned -- I made little dots here as I was going</p>	<p style="text-align: right;">Page 264</p> <p>1 happening.  2 I mean, I understand the distinction.  3 After -- I went to Lula afterwards, and I said, does  4 he call you every time. She said, yeah.  5 And it's maybe I just -- I never asked  6 Lula that before. I just assumed that that -- he was  7 getting in cleared through somebody, and I -- I just  8 wanted to confirm it myself.  9 Q. M-hm.  10 A. It's not like I found out after the fact.  11 I confirmed after the fact that that's what -- it had  12 been Lula all the time. It was curiosity.  13 Q. But in fact as it was happening over the  14 years with Mr. Davis coming in, periodically -- or I  15 mean, not periodically, but occasionally, from time  16 to time you would happen to know just because were  17 you the one who picked up the phone --  18 A. Yeah, 3 times in 5 years, yeah.  19 MS. WILLIAMS: Objection.  20 THE WITNESS: I'm sorry.  21 BY MR. SHOPE:  22 Q. You got to wait till I'm done.  23 A. I'm sorry.  24 Okay. Yeah.  25 Q. Every now and again --</p>
<p style="text-align: right;">Page 263</p> <p>1 down.  2 When I called Jill, I may have asked her,  3 you know, the reason for Davis's admittance, but she  4 claimed she didn't even know him, so that question  5 didn't even make that much sense.  6 Okay. I didn't notice any more.  7 Do you want to ask me any more?  8 Q. Well, I wanted to ask you, on the -- on  9 the third page of exhibit 11 in the first full  10 paragraph, it says: Malvey said he found out after  11 the fact that Davis had been calling Malvey's  12 secretary, Lula Tyler, on a regular basis to be  13 admitted to the quarterly funding meeting press  14 conferences.  15 A. Yeah.  16 Q. Do you see that?  17 A. I have a dot there, and I'm sorry I didn't  18 mention it. I put a dot there.  19 I don't know after the fact -- see, I was  20 confused. I don't know if "after the fact" followed  21 the sentence up above or "after the fact" meant after  22 October 31, but I think I did ask Lula, you know, has  23 he been cleared through for every conference, and  24 then, do you do it, but I -- maybe -- it's -- maybe I  25 never asked her before, but I assumed it was</p>	<p style="text-align: right;">Page 265</p> <p>1 MS. WILLIAMS: It's been a long day.  2 BY MR. SHOPE:  3 Q. -- over the years --  4 A. I'm sorry.  5 Q. -- when Mr. Davis called in to be cleared  6 in, you would be aware of it either because you took  7 the call yourself or because Lula or Elnora said to  8 you, Dave wants to be cleared in?  9 A. Or I saw him there and more or less  10 assumed that's how he got cleared through.  11 Right. And I just confirmed it with Lula.  12 Q. All right. But otherwise, exhibit 11 is  13 accurate in your understanding?  14 A. Yeah.  15 Make me so hesitant to say things.  16 MR. SHOPE: Now mark this as the next --  17 (Malvey Exhibit No. 12  18 was marked for  19 identification.)  20 BY MR. SHOPE:  21 Q. By the way, when you met with the SEC, did  22 you prepare any other diagrams or drawings besides  23 the --  24 A. No.  25 Just the one I did for you here.</p>

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# **EXHIBIT D**



## MEMORANDUM OF ACTIVITY

<b>Type of Activity:</b> <input checked="" type="checkbox"/> Personal Interview <input type="checkbox"/> Telephone Contact <input type="checkbox"/> Records Review <input type="checkbox"/> Other (Describe):	<b>Case Number:</b> 2002-0104 <b>Date:</b> November 21, 2001 <b>Time:</b> 3:00 p.m.	<b>Conducted by (Name, Title, and Signature):</b> Michael Knorr, Investigator <i>Michael C. Knorr</i>
<b>Subject of Activity:</b> Jeff Huther Financial Economist Office of Market Finance Department of the Treasury Washington, DC		<b>Location of Activity:</b> Department of the Treasury Office of General Counsel 1500 Pennsylvania Avenue, NW Washington, DC

On the above date and time, the above listed subject was interviewed by attorneys Andrew Sporkin (202/942-4800) and Rosemary Filou (202/942-4768) of the Division of Enforcement, United States Securities and Exchange Commission (SEC), in coordination with Treasury, Office of General Counsel and the Office of Inspector General (OIG). Interviews of Treasury employees were conducted because of an allegation that someone may have prematurely released market sensitive information about the government's decision to suspend selling Treasury 30-year bonds, thus affecting trading activities in government securities.

The government's decision to suspend issuance of the 30-year bond was announced by Peter R. Fisher, Department of the Treasury, Under Secretary for Domestic Finance, during the quarterly funding meeting press conference at Treasury between 9:00 a.m. and 9:25 a.m. on October 31, 2001. The announcement was embargoed for release until 10:00 a.m. Treasury however, prematurely posted Fisher's statement on their Web site, where it appeared at 9:43 a.m.

Jeff Huther said he has been employed as a financial economist in the Treasury, Office of Market Finance, for the past one and a half years. His responsibilities include market research, analysis and providing advice to financial decision makers at Treasury. He said his immediate supervisor is Paul Malvey.

Huther said he attended the quarterly funding press conference on October 31, 2001. He said he was aware of the sensitivity of

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Date Printed: 12/3/01  
Form OIG-09

Office of the Inspector General - Investigations  
Department of the Treasury

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MEMORANDUM OF ACTIVITY

---

the information at the press conference and heard the press embargo announcement. He said he saw no one leave the room prior to the conclusion of the press conference.

Huther was asked if he knew a Peter Davis, which he said he did not. He said he would not have recognized Davis, nor did anyone mention him at the press conference. He said he only learned of who Davis was after the controversy surrounding the October 31, 2001, press conference. .

Huther said he had first learned of the decision to suspend sales of the 30-year bond in a meeting with Under Secretary Fisher in mid October 2001. He said he did not recall the exact date. He said the decision was not discussed widely within Treasury. Huther said approximately a week before the official announcement, "everyone in our office was notified of the decision." He said the announcement was made at a staff meeting, but he did not recall the exact date. Huther said he would check his appointment calendar to see if he could be more specific as to the dates of the above meetings.

Huther said his office converses with bond traders and consultants but, "we do not provide them with any confidential information." Huther stated that he did not talk to any broker dealer about the decision to suspend the 30-year bond, prior to the official announcement.

Huther said he had met with Mr. Drew Matus, a bond trader from New York, prior to the quarterly funding conference. He said their discussion did not involve the possible suspension of sales of the 30-year bond. Huther said Matus wanted to show him a computer program showing projections for the next quarter government borrowing needs. Matus was working on the computer projection at the direction of the Vice-Chairman of the Borrowing Advisory Committee. Huther again said he did not recall the specific date of his meeting with Matus, but would check his appointment calendar and get back to us.

Huther said he was aware of the importance and sensitivity of the information he had concerning the 30-year bond. He said he is aware of the confidential nature of financial information at Treasury, but is not aware of any written policy involving disclosure.

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Form 01-09

Office of the Inspector General - Investigations  
Department of the Treasury



MEMORANDUM OF ACTIVITY

Huther checked his calendar subsequent to the interview and his search results are appended in the attachment.

Attachment:

Reviewed by: 

Date: 12/4/01

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Date Printed: 12/3/01  
Form 01-09

Office of the Inspector General – Investigations  
Department of the Treasury



# **EXHIBIT E**

### Composite Information

<b>Individual CRD#:</b> 2719539		<b>Individual Name:</b> KEHOE, JAMES D																									
<b>Full Legal Name:</b>	KEHOE, JAMES DEREK																										
<b>Social Security #:</b>																											
<b>Date Of Birth:</b>	10/31/1959																										
<b>Employment</b>	<table border="1"> <tr> <td><b>Name</b></td> <td colspan="3">HSBC SECURITIES (USA) INC. (19585)</td> </tr> <tr> <td><b>Firm Billing Code</b></td> <td colspan="3">INSTL-UK</td> </tr> <tr> <td><b>Position</b></td> <td colspan="3">Registered Representative</td> </tr> <tr> <td><b>Independent Contractor</b></td> <td colspan="3">No</td> </tr> <tr> <td><b>CRD Branch Number</b></td> <td><b>Address</b></td> <td><b>Firm Billing Code</b></td> <td><b>NYSE Branch Code Number</b></td> </tr> <tr> <td>118202 - Located At</td> <td>8 CANADA SQUARE CANARY WHARF LONDON, UNITED KINGDOM E14 5HQ</td> <td>814UN</td> <td>814UN</td> </tr> </table>			<b>Name</b>	HSBC SECURITIES (USA) INC. (19585)			<b>Firm Billing Code</b>	INSTL-UK			<b>Position</b>	Registered Representative			<b>Independent Contractor</b>	No			<b>CRD Branch Number</b>	<b>Address</b>	<b>Firm Billing Code</b>	<b>NYSE Branch Code Number</b>	118202 - Located At	8 CANADA SQUARE CANARY WHARF LONDON, UNITED KINGDOM E14 5HQ	814UN	814UN
<b>Name</b>	HSBC SECURITIES (USA) INC. (19585)																										
<b>Firm Billing Code</b>	INSTL-UK																										
<b>Position</b>	Registered Representative																										
<b>Independent Contractor</b>	No																										
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118202 - Located At	8 CANADA SQUARE CANARY WHARF LONDON, UNITED KINGDOM E14 5HQ	814UN	814UN																								
<b>Residential Address</b>	LONDON, Unknown																										
<b>Reportable Disclosures?</b>	The specified individual has no disclosure that qualifies under this section (i.e., disclosure required to be reported on Form U4 or Form U5). Regulatory and Broker/Dealer Users: Please note that there are three types of disclosure in Web CRD: Reportable, Legacy and Archive disclosure. An individual with no reportable disclosure may or may not have Legacy or Archive disclosure. Investment Adviser Users: Please note that IARD does not include Legacy disclosure. Information reported on previous form filings through IARD is available under Filing History.																										
<b>Statutory Disqualification Status</b>	Clear																										
<b>Has Material Difference in Disclosure?</b>	No																										
<b>Current CE Status</b>	Satisfied																										
<b>Disclosure Counts - Current Disclosures</b>	<b>Criminal</b>	<b>Regulatory Action</b>	<b>Customer Complaint</b>																								
	0	0	0																								
<b>Disclosure Counts - Historical Disclosures</b>	<b>Criminal</b>	<b>Regulatory Action</b>	<b>Customer Complaint</b>																								
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# **EXHIBIT F**

Steven E. Northern

Boston, MA

January 30, 2007

Page 1

1 Volume: I  
2 Pages: 1-221  
3 Exhibits: 1-10  
4

5 UNITED STATES DISTRICT COURT  
6 DISTRICT OF MASSACHUSETTS  
7 (Boston Division)  
8 Civil Action No. 05-CV-10983 (NMG)

9 - - - - -

10 UNITED STATES SECURITIES AND EXCHANGE  
11 COMMISSION,

12 Plaintiff,

13 v.

14 STEVEN E. NOTHERN,

15 Defendant.

16 - - - - -

17 Deposition of Steven E. Nothorn

18 January 30, 2007

19 9:19 a.m. - 4:00 p.m.

20 Securities and Exchange Commission

21 33 Arch Street

22 Boston, Massachusetts

23

24 Reporter: Daria L. Romano, RPR/CRR

25

Steven E. Northern

January 30, 2007

Boston, MA

<p style="text-align: right;">Page 194</p> <p>1 10 million, and Mr. Smith said he would be 2 buying 5 million bonds. 3 Q. What, if anything, did you tell the 4 group during this conversation about Peter 5 Fisher? 6 A. I believe that Peter Fisher had -- I 7 actually don't recall specifically. I believe 8 that Davis had said that -- I actually don't 9 recall. 10 Q. What, if anything, did you say at this 11 time about embargo? 12 A. I don't recall bringing up embargo. 13 Q. What, if anything, did you mention 14 about a press release? 15 A. At that point in time? 16 Q. Yes. 17 A. When I was speaking with Mr. Kennedy? 18 Q. And the group, yes. 19 A. I didn't mention -- I think I 20 mentioned there would be -- they were going to 21 be announcing it at 10. I don't think I 22 mentioned a press release. 23 Q. At the time that you told Mr. Kennedy 24 and the group this information that you received 25 from Mr. Davis, had you heard from Mr. Cadogan</p>	<p style="text-align: right;">Page 196</p> <p>1 I think I might have shared with them 2 that I'd heard that, and I think they confirmed 3 that they also had heard that. 4 Q. When you say "they," is there any 5 particular person who you recall confirming that 6 they'd heard about rumors? 7 A. I don't recall. 8 Q. What happened after you all stated how 9 much of the 30-year bond you were going to 10 purchase? 11 A. I believe John Cadogan summed up, you 12 know, what the total amount would be amongst us, 13 and we authorized him to go ahead and make the 14 purchase. 15 Q. At what I point did Mr. Cadogan tell 16 you there was going to be a Treasury refunding 17 announcement at 10? 18 A. I'm not certain. I believe it was 19 subsequent to him starting to work on placing 20 the order, but I'm not certain. 21 Q. I might have asked this before, but I 22 forgot. When Mr. Cadogan made the statement 23 about there being a Treasury refunding 24 announcement at 10 a.m., I know you said it was 25 directed to you, was it directed to anyone else</p>
<p style="text-align: right;">Page 195</p> <p>1 the Treasury was going to be announcing its 2 refunding needs at 10? 3 A. You have to rephrase that. Can you 4 just repeat that? 5 Q. Sure. 6 You previously testified that you 7 learned about the Treasury refunding 8 announcement, that that was going to be made on 9 October 31st from Mr. Cadogan; is that right? 10 A. Yes. 11 Q. And I wanted to know at the time you 12 had your conversation with Mr. Kennedy and the 13 other colleagues to convey the information you 14 got from Mr. Davis's voicemail, had you already 15 been told by Mr. Cadogan the Treasury was having 16 a refunding announcement? 17 A. I don't think so. I believe not. 18 Q. Besides stating that they were going 19 to buy certain amounts of bonds, what, if 20 anything, did Mr. Kennedy, Kurinsky, Smith, or 21 Cadogan say when you told them about Mr. Davis's 22 voicemail? 23 A. I believe we discussed the fact that 24 we'd heard rumors from the Board of Trade that 25 morning to the same -- exactly the same effect.</p>	<p style="text-align: right;">Page 197</p> <p>1 on the high grade trading desk? 2 A. Not to my knowledge. I was looking at 3 him the way that we are looking at each other 4 right now, so we were -- I know we were 5 communicating, as I was communicating to 6 Mr. Kennedy in a manner that everyone could 7 share in that information if they were 8 interested in listening, I believe he was doing 9 exactly the same. 10 Q. Do you recall where you were standing 11 when Mr. Cadogan informed you about the 12 refunding announcement? 13 A. Yes. 14 Q. Where were you? 15 A. I was standing. 16 Q. Do you want to look at, I guess it's 17 Exhibit 4? 18 A. I was standing behind or next to 19 Mr. Kennedy in 243 on your diagram Exhibit 4. 20 Q. So Mr. Kennedy was either in front of 21 you or next to you when Mr. Cadogan made that 22 statement? 23 A. Yes. 24 Q. Do you know if Mr. Kennedy was sitting 25 when Mr. Cadogan made the statement?</p>

50 (Pages 194 to 197)

Steven E. Northern

Boston, MA

January 31, 2007

Page 222

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Volume: II  
Pages: 222-326  
Exhibits: 11-23

UNITED STATES DISTRICT COURT  
DISTRICT OF MASSACHUSETTS  
(Boston Division)

Civil Action No. 05-CV-10983 (NMG)

- - - - -

UNITED STATES SECURITIES AND EXCHANGE  
COMMISSION,  
  
Plaintiff,

v.  
  
STEVEN E. NOTHERN,  
  
Defendant.

- - - - -

Continued Deposition of Steven E. Nothern  
January 31, 2007  
9:13 a.m. - 11:53 a.m.

Securities and Exchange Commission  
33 Arch Street  
Boston, Massachusetts

Reporter: Daria L. Romano, RPR/CRR

Steven E. Northern

January 31, 2007

Boston, MA

<p style="text-align: right;">Page 235</p> <p>1 A. This was on the table.</p> <p>2 Q. I understand.</p> <p>3 And I'm wondering how, if at all, the</p> <p>4 fact that you believe the long bond would be</p> <p>5 eliminated at some point, how, if at all, that</p> <p>6 factored into your strategy to shift away from</p> <p>7 short term to long term?</p> <p>8 MR. THEODOROU: Objection.</p> <p>9 A. I did believe at the time that the</p> <p>10 30-year treasury represented value. Treasuries,</p> <p>11 both tips and nominal bonds or regular bonds, it</p> <p>12 was my opinion at the time represented value.</p> <p>13 One of the reasons would certainly be</p> <p>14 that -- that there were probably not going to be</p> <p>15 enough 30-year treasury bonds to go around,</p> <p>16 either because they stopped issuing, or they</p> <p>17 slowed down issuing, or they were just put away</p> <p>18 and not available in the marketplace.</p> <p>19 30-year treasuries provide a useful</p> <p>20 function for insurance company portfolios, for</p> <p>21 mutual fund portfolios, for pension funds that</p> <p>22 have long-term liabilities to match, and we were</p> <p>23 facing the very real prospect of there just</p> <p>24 plain not being enough to go around, at which</p> <p>25 case they represent value.</p>	<p style="text-align: right;">Page 237</p> <p>1 A. No.</p> <p>2 Q. Did you expect the bond cancellation</p> <p>3 to be announced at a refunding?</p> <p>4 A. No.</p> <p>5 Q. Why not?</p> <p>6 A. I had no expectations of how they</p> <p>7 would announce it or decide it.</p> <p>8 Q. But you had heard rumors surrounding</p> <p>9 the August refunding, the possible cancellation</p> <p>10 being announced at that refunding?</p> <p>11 A. I do recall that the August period</p> <p>12 there had been a lot of talk about it.</p> <p>13 Q. I asked you yesterday some questions</p> <p>14 about what factored into your decision to</p> <p>15 purchase 30-year bonds on October 31st, and you</p> <p>16 mentioned the strategy, and I wanted to follow</p> <p>17 up on that.</p> <p>18 Was there anything else besides your</p> <p>19 strategy to shift from intermediate bonds to</p> <p>20 long-term bonds that factored into your decision</p> <p>21 to purchase 30-year bonds on October 31st?</p> <p>22 A. Yes.</p> <p>23 Q. What else?</p> <p>24 A. Generally I thought they represented</p> <p>25 value. We discussed some of the reasons. There</p>
<p style="text-align: right;">Page 236</p> <p>1 There are other reasons at the time,</p> <p>2 but that was certainly one of them.</p> <p>3 Q. Prior to October 31, 2001, did you</p> <p>4 have any idea as to when you thought Treasury</p> <p>5 might cancel the 30-year bond?</p> <p>6 A. We'd been looking at that issue for a</p> <p>7 long time. I concluded that the prior</p> <p>8 administration was probably inclined to suspend</p> <p>9 issuance or stop issuing 30-year treasuries.</p> <p>10 I had sort of concluded at the time</p> <p>11 that they punted that issue and sort of left it</p> <p>12 to the next administration, which is the current</p> <p>13 administration that took office in early 2001.</p> <p>14 I think they didn't -- it was</p> <p>15 appropriate. They didn't want to tie the hands</p> <p>16 of the next Treasury secretary, so they let the</p> <p>17 next administration -- that was sort of my</p> <p>18 judgment. Otherwise, I think they were inclined</p> <p>19 to do it in 2000.</p> <p>20 Q. So you thought it would happen with</p> <p>21 the current administration, which you said took</p> <p>22 office in early 2001.</p> <p>23 Did you have any idea of how long</p> <p>24 after the current administration took office as</p> <p>25 to when it might be cancelled?</p>	<p style="text-align: right;">Page 238</p> <p>1 are many other reasons.</p> <p>2 I think we touched upon yesterday</p> <p>3 probably the most important reason is that we</p> <p>4 were in a period of economic slow down. The</p> <p>5 shock -- you have to remember, this is just</p> <p>6 after September 11. We had taken a kick in the</p> <p>7 teeth, in a sense. And, you know, Americans</p> <p>8 after a few days, we stiffened, but it was a</p> <p>9 shock to the system.</p> <p>10 And at this point in time, October 31,</p> <p>11 there was a lot of uncertainty surrounding what</p> <p>12 the impact -- and we were at war at that period</p> <p>13 of time. So there was a lot of uncertainty in</p> <p>14 terms of moving forward what the economic</p> <p>15 environment would be.</p> <p>16 When business is faced with that and</p> <p>17 households are faced with that kind of</p> <p>18 uncertainty, they often become more</p> <p>19 conservative. So it tends to lead to more</p> <p>20 conservative behavior, more modest economic</p> <p>21 growth, which is the underpinnings for an</p> <p>22 environment which is less inflationary.</p> <p>23 We were already in a disinflationary</p> <p>24 environment at that point in time. My judgment</p> <p>25 was that the disinflationary trends would, if</p>

5 (Pages 235 to 238)



# **EXHIBIT G**

Peter Davis, Jr.

April 19, 2006

Washington, DC

Page 1

1 UNITED STATES DISTRICT COURT

2 FOR THE DISTRICT OF MASSACHUSETTS

3 - - - - - X

4 UNITED STATES SECURITIES AND :

5 EXCHANGE COMMISSION, :

6 Plaintiff, :

7 V. : Civil Action No.

8 STEVEN E. NOTHERN, : 05-10983(NMG)

9 Defendant. :

10 - - - - - X

11 Washington, D.C.

12 Wednesday, April 19, 2006

13 Videotape Deposition of PETER DAVIS, JR.,

14 a witness herein, called for examination by counsel

15 for the Plaintiff in the above-entitled matter,

16 pursuant to notice and subpoena, the witness being

17 duly sworn by PENNY M. DEAN, a Notary Public in and

18 for the District of Columbia, taken at the offices of

19 U.S. Securities and Exchange Commission, 100 F

20 Street, NE, Washington, D.C., at 9:37 a.m.,

21 Wednesday, April 19, 2006, and the proceedings being

22 taken down by Stenotype by PENNY M. DEAN, RPR, and

23 transcribed under her direction.

24

25

Peter Davis, Jr.

April 19, 2006

Washington, DC

Page 170

Page 172

1 A. Yes, they did.

2 Q. How long did Mr. Fisher speak before the  
3 questions?

4 A. Well, the meeting started at like 9:02 or  
5 9:03 or something like that. And he started taking  
6 questions about -- I don't know, 9:15, 9:18,  
7 something like that. And my recollection -- I looked  
8 at my watch when I left and it was 9:30. And I'm  
9 very careful about making sure my watch is accurate,  
10 I always call up the national time clock.

11 Q. Did you ask any questions during the  
12 October 31st --

13 A. I raised my hand and almost did, and then  
14 I decided I was so angry about what they were doing  
15 that I just put my hand down and he called on  
16 somebody else.

17 Q. Why were you angry about what they were  
18 doing?

19 A. Because they were going to stick the  
20 taxpayers with roughly a billion dollars worth of  
21 interest expense by not issuing long bonds when  
22 interest rates were the lowest they had been in two  
23 generations since the Depression. And every other  
24 homeowner in the country was trying to lengthen their  
25 maturities to get lower payments, Treasury was doing

1 And so the last time, in my estimation,

2 that the market expected the 30-year to be -- you  
3 know, expected the cessation of the 30-year was in  
4 the May or possibly in the August meeting. And by  
5 the October 31st meeting of 2001, the market had  
6 given up, just concluded that it doesn't make any  
7 sense for Treasury to get rid of it now.

8 Over the summer, in fact, even earlier  
9 than that, in the spring and the summer, I had been  
10 one of the first people in Washington to say that the  
11 federal deficit was going straight up. And if the  
12 deficit is going straight up, the last thing you want  
13 to do is take away one of the ways to finance it,  
14 especially when interest rates are the lowest they've  
15 been in 70 years. And so it just made no sense and  
16 so I was pretty upset about it.

17 Q. Did you think that this announcement that  
18 the 30-year bond was going to be cancelled would have  
19 any impact on your clients?

20 A. Sure.

21 Q. And what kind of impact did you think it  
22 might have?

23 MR. THEODOROU: Objection.

24 THE WITNESS: I thought it might hurt  
25 them. I knew it was going to hurt the public, I

Page 171

Page 173

1 the opposite, which was creating an expense, a future  
2 expense when the shorter maturities rolled over,  
3 taxpayers today are now paying a lot more interest  
4 expense.

5 Q. So what, if any, impact did you believe  
6 that the announcement that the 30-year bond would no  
7 longer be issued, what if any impact did you think  
8 that would have on the market?

9 MR. THEODOROU: Objection.

10 THE WITNESS: I anticipated it was going  
11 to surprise the market, that it was a total reversal  
12 of Treasury policy, that it was done for political  
13 reasons and I was just furious at what they were  
14 doing.

15 BY MS. WILLIAMS:

16 Q. Had you heard any rumors that the 30-year  
17 bond might be cancelled before you attended this --

18 A. No, but there was a lot of speculation  
19 starting in early 2000 that they would. And I kept  
20 asking people and they kept saying the standard  
21 response. You know, several times Treasury officials  
22 told me in these meetings, and you know, for  
23 attribution later on and all that, that, you know, no  
24 change in policy, you know, we anticipate offering  
25 the 30-year.

1 impulsively warned people.

2 BY MS. WILLIAMS:

3 Q. Did you think that this announcement would  
4 have any effect on the price of the bond?

5 A. Sure.

6 Q. What kind of --

7 A. Goes straight up, the biggest one day move  
8 in the 30-year in history of the country.

9 Q. Did you take any notes during this  
10 conference?

11 A. No, I had the materials in front -- at  
12 least not that I recall. I don't -- I don't recall  
13 taking any notes.

14 Q. Let me ask you to look at this --

15 A. Maybe, I don't know. It's a long time  
16 ago, I don't recall.

17 Q. Let me ask you to look at what I'm going  
18 to have marked as Exhibit 26.

19 (Davis Exhibit No. 26 was marked for  
20 identification.)

21 THE WITNESS: Yes, I did take notes, this  
22 is my handwriting.

23 BY MS. WILLIAMS:

24 Q. You recognize the handwriting on this  
25 document?

44 (Pages 170 to 173)

# **EXHIBIT H**

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UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF MASSACHUSETTS

UNITED STATES SECURITIES )

AND EXCHANGE COMMISSION, )

Plaintiff, )

vs. ) No. 05-10983

(NMG)

STEVEN E. NOTHERN, )

Defendant. )

-----)

VIDEOTAPED  
DEPOSITION OF PETER R. FISHER  
New York, New York  
August 8, 2006

Reported by:

PAMELA J. MAZZELLA, RPR

JOB NO. 7046

Page 162

1 Fisher  
2 recollection. I think the purpose of the  
3 meeting would have been to sensitize her to  
4 the fact that we would be announcing both the  
5 discontinuation of the 30-year bond and a  
6 suspension of the Buyback Program, so in all  
7 likelihood I conveyed that information to her  
8 so she would understand the sensitivity of  
9 it, and thus I was concerned about the  
10 embargo, but I don't have a specific  
11 recollection of the conversation on those  
12 points.

13 Q. I understand. On October 31, 2001  
14 you stated that after the Treasury Refunding  
15 Conference you had a discussion with some  
16 people on your staff and they conveyed that  
17 there had been extraordinary movement of  
18 long-term interest rates; is that right?

19 A. Yes.

20 Q. What did you mean by "extraordinary  
21 movement"?

22 A. Well, a sudden movement of 3 or 4  
23 or 5 basis points, which is, you know, seems  
24 rather small, but a very abrupt movement of  
25 that size would constitute abrupt volatile

Page 163

1 Fisher  
2 movements. 10 basis points in a short period  
3 of time would be a huge movement given the  
4 context that we're talking about.

5 I don't recall the magnitude of the  
6 movements that morning now, but I recall them  
7 being -- them bringing to my attention and we  
8 all felt rather nervous and awkward about  
9 them and understood they portrayed something  
10 we should be nervous about.

11 Q. Now, were these movements -- do you  
12 know about the time that the market started  
13 moving? Do you know if this was before or  
14 after you made your statement at the  
15 Refunding Conference?

16 MR. SHOPE: Objection.

17 A. I -- let me understand your  
18 question. I don't recall what time the staff  
19 came to speak to me.

20 Q. Okay. That wasn't really my  
21 question.

22 A. I'm just trying to narrow it down.  
23 I recall them showing me, taking me to either  
24 a screen I could look at or showing me pieces  
25 of paper that would show me movements in

Page 164

1 Fisher  
2 long-term interest rates over the period of  
3 time after 9 o'clock and before 10 o'clock,  
4 so we would collectively be looking at a  
5 graph that showed movements in those prices  
6 that period of time between roughly 9:30 and  
7 10 o'clock.

8 Q. Okay. Do you recall, and I don't  
9 know if you just answered this, if the  
10 movement was between 9 o'clock and 10  
11 o'clock?

12 MR. SHOPE: Objection.

13 A. I -- my recollection is that it was  
14 movements in prices after I finished speaking  
15 in my press conference and prior to the  
16 release, either 10 o'clock or the several  
17 minutes before 10 o'clock when the mistaken  
18 electronic announcement was made, so it was a  
19 window of time between approximately 9:25 and  
20 10 o'clock.

21 Q. Prior to October 31 had you ever  
22 heard of any rumors that the long bond would  
23 be eliminated?

24 A. Let me be very clear. I don't  
25 recall any rumors that the long bond would be

Page 165

1 Fisher  
2 eliminated, that is, people speculating they  
3 knew what I had concluded to do; that there  
4 was debate about whether the Treasury would  
5 or wouldn't and some people thought maybe the  
6 Treasury will and some people thought maybe  
7 the Treasury won't.

8 Do you see the distinction I'm  
9 drawing?

10 Q. Yes.

11 A. I'm trying to draw a distinction  
12 between people guessing or anticipating or  
13 thinking they make an educated forecast about  
14 what the Treasury would do versus someone  
15 asserting they knew what the Treasury would  
16 do, and I have no recollection of the latter.

17 Q. Regarding the former, the  
18 speculation, the kind of prognosticating what  
19 the Treasury might do, do you know in your  
20 experience, would those, I'm going to  
21 characterize it as rumors, ever move the  
22 market?

23 A. Well, that's a very broad question  
24 and the answer to the broad question is yes.  
25 In anticipation of what the Treasury might do



# **EXHIBIT I**

Brian Roseboro

June 27, 2006

New York, NY

Page 1

1

2 UNITED STATES DISTRICT COURT  
3 FOR THE DISTRICT OF MASSACHUSETTS

4 -----X

5 UNITED STATES SECURITIES AND  
6 EXCHANGE COMMISSION,

7 Plaintiff,

8 - against -

9 STEVEN E. NORTHERN,

10 Defendant.

11 CIVIL ACTION NO.: 05-10983 (NMG)

12 -----X

13 450 Lexington Avenue  
New York, New York

14

June 27, 2006

15 2:06 p.m.

16

17 VIDEOTAPED DEPOSITION of BRIAN  
18 ROSEBORO, pursuant to Notice, before Melissa  
19 Gilmore, a Notary Public of the State of New  
20 York.

21

22

23

24

25

Brian Roseboro

June 27, 2006

New York, NY

<p style="text-align: right;">Page 66</p> <p>1 how active he was. I don't recall how active  2 he was in the editing process because he was  3 still pretty new to Treasury. I think he may  4 have come in mid-October or something.  5 Q. Secretary O'Neal, as far as you were  6 aware, he was the highest decision maker of  7 which you were aware, correct?  8 A. Correct.  9 Q. So besides Secretary O'Neal,  10 Mr. Fisher, Mr. Malvey, Mr. Bitsberger and  11 yourself, was there anybody else at Treasury  12 who knew in advance of October 31 that the long  13 bond was no longer going to be issued?  14 MS. WILLIAMS: Objection.  15 A. Those are the only people I know for  16 sure.  17 Q. Is there anybody that you think may  18 have known or probably knew?  19 MS. WILLIAMS: Objection.  20 A. Mr. Huther, who worked for  21 Mr. Malvey. I can't go any deeper than that.  22 Q. So you're conjecturing that possibly  23 Mr. Malvey had told some of his staff?  24 MS. WILLIAMS: Objection.  25 A. Again, Mr. Huther was at some of the</p>	<p style="text-align: right;">Page 68</p> <p>1 Q. As far as your own state of mind, as  2 far as you -- your thought was that it was  3 quite possible that the market reaction to the  4 announcement of suspension of the issuance of  5 the long bond might be that the price of long  6 bonds could go down?  7 MS. WILLIAMS: Objection.  8 A. That was a possibility.  9 Q. Did you give any consideration to  10 the idea that it might cause the price of long  11 bonds to go up?  12 A. Again, it's possible it could go  13 down. A scenario where it could go up, it  14 could go down, but we were not trading our  15 position, so that was not something I gave a  16 lot of thought to, to be perfectly honest.  17 Q. Did you consider that the decision  18 to suspend the issuance of the long bond would  19 be market sensitive?  20 A. Again, it was all conjecture. The  21 market had been expecting this for a while. I  22 received questions at the July Quarterly Press  23 Conference from the press about us eliminating  24 the long bond. I had no idea whether or not  25 they would take it as expected or a surprise,</p>
<p style="text-align: right;">Page 67</p> <p>1 meetings. So, again, it's a possibility is the  2 best I can say.  3 Q. Did you have any anticipation that  4 the announcement that the long bond would no  5 longer be issued would have any affect on the  6 market value of long bonds?  7 A. We were -- I was not sure as to -- I  8 thought they may have some affect. I didn't  9 know what type of magnitude or actually what  10 direction it may take.  11 Q. So as far -- before the  12 announcement, as far as your thought process  13 was concerned, you thought that the market  14 might react by causing long bonds to be less  15 expensive?  16 MS. WILLIAMS: Objection.  17 A. There is a saying in financial  18 markets, "You are going to buy on the rumor,  19 sell on the fact." And given, as I mentioned  20 earlier, this was a topic that had been debated  21 for a while, the idea that the market may have  22 a contrary in reaction to supply being taken  23 away was not out of the realm of possibilities  24 for financial markets, at least in the short  25 term.</p>	<p style="text-align: right;">Page 69</p> <p>1 no idea.  2 Q. Was it your belief, going into the  3 October 31 press conference, that the market  4 was actually expecting an announcement that the  5 long bond would be suspended?  6 A. To be perfectly honest, that wasn't  7 my focus. Again, our focus is what is the best  8 steps for us to take the Treasury's debt  9 management policy.  10 In the market that we deal with we  11 recognize some people are long, some people are  12 short. It's not our position to worry about  13 which one of those is it going to affect more.  14 It was our responsibility to worry about what  15 were best steps to take for Treasury's debt  16 management policy.  17 Q. Okay, but my question wasn't about  18 what your job is. I understand what your job  19 is.  20 A. Well, that's what I focused on, my  21 job in terms -- I didn't think about what was  22 happening. Getting the announcement out,  23 getting the memo, going through our process of  24 getting documents to Public Affairs to be  25 posted, handed out, whatever their procedure</p>

18 (Pages 66 to 69)

Brian Roseboro

June 27, 2006

New York, NY

<p style="text-align: right;">Page 70</p> <p>1 was, giving the press conference.</p> <p>2 Q. Just to be clear, you had absolutely</p> <p>3 no awareness as far as what the market was</p> <p>4 expecting with regard to suspension or not of</p> <p>5 issuance of the long bond?</p> <p>6 A. No. As I said previously, the</p> <p>7 market had been expecting it to be eliminated</p> <p>8 even before we came to Washington to some</p> <p>9 extent. So every quarterly refunding it looks</p> <p>10 like -- if we didn't do it then, then questions</p> <p>11 would have likely happened in January at the</p> <p>12 next refunding.</p> <p>13 Q. Was it your state of mind that that</p> <p>14 expectation was continuing going into the</p> <p>15 October 31, 2001 Refunding Conference?</p> <p>16 A. My expectation was the market's</p> <p>17 state of mind was pretty much on this issue as</p> <p>18 it was in July.</p> <p>19 Q. In other words, that there was still</p> <p>20 an expectation out there that the Treasury was</p> <p>21 going to announce suspension of issuance of the</p> <p>22 long bond?</p> <p>23 A. By some, and by some who thought we</p> <p>24 wouldn't. That's what makes it a market.</p> <p>25 Q. Had you heard -- before October 31,</p>	<p style="text-align: right;">Page 72</p> <p>1 Q. And this was a subject that the</p> <p>2 market continued to speculate about and discuss</p> <p>3 going into the October 31 conference, right?</p> <p>4 A. Correct.</p> <p>5 Q. Had you heard of any discussion</p> <p>6 going into the October 31 conference that</p> <p>7 because there had been terrorist attacks on</p> <p>8 September 11, 2001 that the Treasury might not</p> <p>9 go ahead and suspend issuance of the long bond?</p> <p>10 A. I had not -- I do not recall hearing</p> <p>11 that.</p> <p>12 Q. Did you have any concern that there</p> <p>13 might be leaks of -- this is before the</p> <p>14 conference actually occurred on October 31,</p> <p>15 2001. Did you have any concern that there</p> <p>16 might be leaks of the information in advance of</p> <p>17 the public announcement?</p> <p>18 A. I do not recall ever having that</p> <p>19 concern.</p> <p>20 Q. If at any point we need to take a</p> <p>21 break or you have some sort of emergency call,</p> <p>22 just let me know.</p> <p>23 A. No, keep going, please.</p> <p>24 Q. Would you monitor the movements of</p> <p>25 the markets in the federal debt?</p>
<p style="text-align: right;">Page 71</p> <p>1 2001, had you heard of any rumors that the</p> <p>2 Treasury was going to be making this decision</p> <p>3 to suspend issuance of the long bond?</p> <p>4 A. No.</p> <p>5 Q. So nobody ever called you up and</p> <p>6 said is it true that you are going to do this?</p> <p>7 MS. WILLIAMS: Objection.</p> <p>8 A. No, the market was focused on some</p> <p>9 other issues in October of '01.</p> <p>10 Q. Before October 31, 2001, did you</p> <p>11 become aware of any speculation that the</p> <p>12 terrorist attacking of September 11, 2001 might</p> <p>13 cause the Treasury not to suspend issuance of</p> <p>14 the long bond?</p> <p>15 A. Say that again, please.</p> <p>16 Q. Sure. You mentioned that going into</p> <p>17 the -- let me back up.</p> <p>18 You had conducted the quarterly</p> <p>19 refunding conference on August 1 of 2001,</p> <p>20 right?</p> <p>21 A. Correct.</p> <p>22 Q. And you had gotten questions at that</p> <p>23 time about is Treasury going to suspend the</p> <p>24 long bond, et cetera?</p> <p>25 A. Correct.</p>	<p style="text-align: right;">Page 73</p> <p>1 MS. WILLIAMS: Objection.</p> <p>2 A. More specific, please.</p> <p>3 Q. Obviously, in a general way, you had</p> <p>4 to for your job, but what I'm talking about is</p> <p>5 like on a daily basis. In other words, would</p> <p>6 you get a report or would you even have a</p> <p>7 Bloomberg screen at yours desk?</p> <p>8 A. There was a Bloomberg screen in my</p> <p>9 office.</p> <p>10 Q. That meant that second by second the</p> <p>11 prices of federal debt securities were on a</p> <p>12 screen in your office, correct?</p> <p>13 MS. WILLIAMS: Objection.</p> <p>14 A. They were available to me. It was</p> <p>15 not what I was looking at on a second-by-second</p> <p>16 basis.</p> <p>17 Q. Occasionally, would you glance at</p> <p>18 the screen just to see how the various federal</p> <p>19 issues were doing?</p> <p>20 MS. WILLIAMS: Objection.</p> <p>21 A. To be perfectly honest, at the time</p> <p>22 I had a lot of other things I was working on.</p> <p>23 Q. So it was -- well, was there</p> <p>24 somebody who was under you who had the job of</p> <p>25 monitoring the prices in the market of the</p>

19 (Pages 70 to 73)

# **EXHIBIT J**

1

2

UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF MASSACHUSETTS

4

UNITED STATES SECURITIES )  
5 AND EXCHANGE COMMISSION, )

6 Plaintiff, )

) Civil Action

7 vs. )

) No. 05-10983 (NMB)

8 STEVEN E. NOTHERN, )

9 Defendant. )

-----)

10

11

12

13 VIDEOTAPED DEPOSITION OF GALEN CRIQUI

14 New York, New York

15 Wednesday, September 27, 2006

16

17

18

19

20

21

22

23

24 Reported by:

Elia E. Carrion

25 JOB NO. 7530

Page 130

1 G. Criqui  
 2 blue sheet said about this announcement that  
 3 day?  
 4 A. I don't. I don't have that good of  
 5 a memory.  
 6 Q. And you said you expected it to  
 7 come out at 10 a.m.?  
 8 A. Yes.  
 9 Q. What was your basis for thinking  
 10 10 a.m. was the time?  
 11 A. Just that's what the sheet had  
 12 written down.  
 13 You know, I must say, usually  
 14 refunding announcements, they're not  
 15 earth-shattering events; 99 percent of the  
 16 time they're not. It just, you know, in this  
 17 situation something strange was part of the  
 18 announcement, and that's what made this one  
 19 very unique.  
 20 Q. Did earlier notes regarding an  
 21 upcoming refunding announcement always have  
 22 the time of the announcement included?  
 23 A. Yes.  
 24 Q. And do you recall any previous  
 25 times for previous announcements?

Page 131

1 G. Criqui  
 2 A. No. No, usually came out as  
 3 expected.  
 4 Q. But it's your recollection that  
 5 there was always a fixed time for the  
 6 announcement?  
 7 MS. WILLIAMS: Objection.  
 8 A. Yes, but I wouldn't, I wouldn't  
 9 testify to that, though. I don't know for  
 10 sure, you know.  
 11 Q. Do you know the process that the  
 12 Treasury Department used to make these  
 13 announcements?  
 14 A. I actually do not know. It's  
 15 probably something I should know, as a  
 16 trader. But we get, we're so dependent on  
 17 this Bloomberg trading system, which also  
 18 releases news headlines as well. With  
 19 Bloomberg, you have all your functionality,  
 20 your trading functionality. At the bottom  
 21 there's like six or seven lines of news  
 22 headlines, so I would just look at that.  
 23 And they're pretty quick, and they  
 24 get stuff out there quick. Payroll number on  
 25 Friday morning at 8:30, it's right there

Page 132

1 G. Criqui  
 2 quick. It's just like the refunding  
 3 announcement is.  
 4 Q. But did you have any knowledge  
 5 regarding whether this information was  
 6 announced live on TV or at a press  
 7 conference --  
 8 A. No.  
 9 Q. -- or through other means?  
 10 MS. WILLIAMS: Objection.  
 11 A. Not, certainly not at that time,  
 12 no.  
 13 Q. Did you know whether the Treasury  
 14 Department released its information pursuant  
 15 to any kind of embargo?  
 16 A. No.  
 17 Q. Now, in 2001, were you familiar  
 18 with any kind of speculation about the  
 19 possible suspension or elimination of the  
 20 bond, prior to October 2001?  
 21 MS. WILLIAMS: Objection.  
 22 A. Yeah, I mean just, just  
 23 speculating, it was, it was a, it was a  
 24 remote, remote possibility.  
 25 And I really only say this more so

Page 133

1 G. Criqui  
 2 from a positional standpoint. At that time,  
 3 and I think this is relevant, at that time I  
 4 had my Galen book, I'm trading the bond,  
 5 yield bond; but I also mentioned I was part  
 6 of this strip book, which is bigger, bigger  
 7 operation and the, you know, we had a big  
 8 position over there. We were short some  
 9 bonds, and I was -- we were short a pretty  
 10 significant portion of bonds on spread versus  
 11 off-the-run bonds, just a spread trade, not a  
 12 duration, we're not short outright. And you  
 13 know, the treasury had just done buy-backs  
 14 the year before, so they bought at least 30  
 15 billion long bonds back, old bonds, old long  
 16 bonds in particular.  
 17 So, you know, I guess there's  
 18 always the possibility that they could cancel  
 19 it, but like I said, number one, they'd just  
 20 done all these buy-backs; and number two, we  
 21 were just about to go into war with  
 22 Afghanistan, which involves a lot of  
 23 spending, a lot of deficit spending and  
 24 whatnot, so the market was not anticipating a  
 25 cancellation whatsoever.

34 (Pages 130 to 133)



Page 134

1 G. Criqui  
 2 And lastly, in hindsight, judging  
 3 by the way the market reacted to this news,  
 4 it really was not -- it wasn't even a tenth  
 5 of one percent priced in that they would  
 6 cancel this bond.  
 7 Q. You mentioned buy-backs earlier.  
 8 What's the purpose of buying back a  
 9 certain kind of debt by the Treasury  
 10 Department?  
 11 A. Just to narrow the deficit when --  
 12 you know, during the Clinton years the  
 13 economy was in great shape, and they had,  
 14 they had treasury surpluses. What do you do  
 15 with that money? They bought back some of  
 16 the debt, just to bring down the deficit, the  
 17 outstanding deficit.  
 18 Q. And is the point to make liquidity  
 19 in a certain part of the treasuries market?  
 20 A. Nah, I don't know, I couldn't  
 21 really answer. Liquidity's a pretty vague  
 22 term as it is.  
 23 Did it provide more liquidity to  
 24 buy-backs? Probably less, probably reduced  
 25 it.

Page 135

1 G. Criqui  
 2 Q. You cited the fact that treasury  
 3 had been carrying out these buy-backs of long  
 4 term debt; is that correct?  
 5 A. Yes.  
 6 Q. And you cited that as, you know,  
 7 one possible reason why suspension or  
 8 elimination of 30-year bond may, might occur?  
 9 A. Yeah, just very remote, remote  
 10 possibility.  
 11 Like I said, when we were carrying  
 12 a short in the bond in our other book, pretty  
 13 significant size, you know, you just -- those  
 14 are the kind of things, as a cynical trader,  
 15 which most goods ones are, are in the back of  
 16 your head. You know, they did do some  
 17 buy-backs here in the 30-year; you know, who  
 18 knew that in one year's time we'd go from a  
 19 surplus to a deficit?  
 20 But it was, you know, it was  
 21 definitely something in the back of our head,  
 22 but mainly and primarily because of the size  
 23 of the position we had in our big book.  
 24 Q. Do you know who Peter Fisher is?  
 25 A. I believe he was one of the Fed,

Page 136

1 G. Criqui  
 2 New York chairman, something like that,  
 3 right? Was it -- at the time, though, he  
 4 might have been the -- I don't want to sound  
 5 too stupid here, but he was, what was he? I  
 6 should remember.  
 7 I'm not supposed to ask you  
 8 questions, but he was the treasure --  
 9 Q. I'll represent to you at the time  
 10 of this --  
 11 A. -- treasury secretary.  
 12 Q. -- he was the undersecretary --  
 13 A. Undersecretary, that's it.  
 14 Q. -- of the Treasury Department.  
 15 A. Thank you.  
 16 Q. Are you aware of any comments that  
 17 Mr. Fisher may have made in 2001, regarding  
 18 treasury's plans on buying back debt?  
 19 A. Not, not that I could quote, no,  
 20 not that I could remember very well.  
 21 Q. Are you familiar with the treasury  
 22 borrowing advisory committee?  
 23 A. The TBAC, a little bit. Sometimes  
 24 I would see the recommendations over the top  
 25 and no one really took them too seriously,

Page 137

1 G. Criqui  
 2 because there were some major customers that  
 3 were on the TBAC that were somewhat in  
 4 question, their motives; some of the  
 5 recommendations, you know, self-serving,  
 6 perhaps, or whatever; but nothing that I  
 7 could really comment on or really remember  
 8 that well now.  
 9 Q. Just tell me about your  
 10 understanding of the TBAC and self-serving  
 11 interest.  
 12 A. Well, that there's, I would say  
 13 there's probably ten to twelve members, and I  
 14 would say maybe even half, this is all off  
 15 top of my head, half of them probably  
 16 represented buy side customers, maybe even a  
 17 couple of hedge fund representation even on  
 18 there. And, you know, you never know what  
 19 they're recommending and how that, you know,  
 20 relates to their trading position, you know.  
 21 Q. Do you know what weight the senior  
 22 officials in the Treasury Department gave to  
 23 recommendations of the borrowing advisory  
 24 committee?  
 25 A. I don't know. Probably nothing.

35 (Pages 134 to 137)

# **EXHIBIT K**

John Cadogan

11/29/2006

Page 1

Volume: I

Pages: 1-183

Exhibits: 1-8

UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF MASSACHUSETTS

- - - - - x

UNITED STATES SECURITIES AND  
EXCHANGE COMMISSION,

Plaintiff,

v. Civil Action No. 05-10983 (NMG)

STEVEN E. NOTHERN,

Defendant.

- - - - - x

DEPOSITION OF JOHN CADOGAN

Wednesday, November 29, 2006

8:44 a.m.

FOLEY HOAG LLP

155 Seaport Boulevard

Boston, Massachusetts 02210-2600

Court Reporter: Carol A. Pagliaro, CSR/RPR/RMR

Videographer: Jody Urbati

John Cadogan

11/29/2006

Page 170

1 A. Market convention is typically you tell them  
2 that they are done.

3 **Q. So to actually say the word "done"?**

4 A. That is correct.

5 **Q. At the time that you say "done," is that  
6 when the trade is executed?**

7 ATTY. SHOPE: Objection.

8 A. As a rule of thumb market convention is when  
9 I say "done," the trade is done. The only time  
10 there is a change is if the salesperson says, before  
11 I say "done," say "change" or "subject."

12 **Q. Do you recall if Mr. St. Pierre, on October  
13 31, said "change" or "subject" with regard to this  
14 execution of \$65 million?**

15 A. I don't remember.

16 **Q. If the salesperson says -- person says  
17 "change" or "subject," what happens to the execution  
18 of that trade?**

19 A. There is no trade if they say "change" or  
20 "subject," and I haven't already said "done."

21 **Q. I believe you testified that you were on the  
22 telephone and received some sort of indication from  
23 the Portfolio Managers on the morning of October 31,  
24 2001 before this execution of the \$65 million**

Page 171

1 **trade; is that correct?**

2 A. Yes.

3 ATTY. SHOPE: I'm sorry, may I have that  
4 question and answer reread.

5 (Question and answer read.)

6 ATTY. SHOPE: Note my objection to the  
7 form of the question.

8 **Q. Do you --**

9 ATTY. SHAPIRO: I'm sorry. Mr. Cadogan,  
10 just -- I know we have been at it a while, just  
11 before you answer a question, give a pause or two in  
12 case Mr. Shope or myself wants to object, or Ms.  
13 Williams wants to object to her own questions.

14 **Q. Do you recall who was signalling to you?**

15 A. I don't recall, no.

16 **Q. I believe you also testified that you  
17 received a verbal, verbal order, before you placed  
18 the \$65 million.**

19 A. Yes.

20 **Q. Did you check the FITS system to see if  
21 there had been any orders entered into that system?**

22 A. I don't believe I did, no.

23 **Q. Do you know when the Portfolio Managers who  
24 placed orders that then became the \$65 million**

Page 172

1 **trade entered information regarding those orders  
2 into the FITS system?**

3 A. I don't remember the exact time.

4 **Q. I believe you testified that you had heard  
5 some rumors on October 31 regarding the possible  
6 elimination of the long bond?**

7 ATTY. SHAPIRO: Objection.

8 **Q. Is that true?**

9 A. I do have some memory of hearing that, yes.

10 **Q. Do you know how you learned of these rumors?**

11 A. I don't remember exactly, no.

12 **Q. Did you ever, on October 31, learn that the  
13 Treasury had made a refunding announcement  
14 announcing the elimination of the 30-year bond?**

15 A. Could you say that again.

16 **Q. Did you ever learn on October 31 that the  
17 Treasury Department had made an announcement  
18 announcing the elimination of the 30-year bond?**

19 A. I believe it was announced publicly at 10:00  
20 a.m. that morning.

21 **Q. How did you learn about this public  
22 announcement?**

23 A. I believe it was released on the news  
24 services.

Page 173

1 **Q. Do you recall seeing the announcement on a  
2 news service?**

3 A. I don't remember specifically, no.

4 **Q. Do you recall having any conversations with  
5 any Portfolio Managers about the announcement that  
6 came at 10:00 a.m. from the Treasury?**

7 A. Before 10:00 a.m. or in general?

8 **Q. In general.**

9 A. I believe it might have been discussed  
10 generally on the desk, but I don't remember any  
11 specifics.

12 **Q. And this is after the announcement had been  
13 made by the the Treasury Department?**

14 A. From what I can remember, yes.

15 **Q. Do you recall having any discussions before  
16 the announcement was made by the Treasury  
17 Department?**

18 A. No.

19 **Q. If you could refer to Exhibit 7, please,  
20 Page 2, and I'm referring to the bottom box  
21 reflecting the \$14 million trade; do you see that  
22 box?**

23 A. Yes.

24 **Q. Did Mr. Nothorn provide you any reasons for**

44 (Pages 170 to 173)